COMMERCE

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THIRD EDITION

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To
MY MOTHER

PREFACE TO THE FIRST EDITION

INDIA'S trade and commerce are at present exhibiting some of the most unprecedented symptom of momentous development and time alone will prove whether they lead to commercial prosperity within the country. On one side, there are self-complacent professions of a new era in India's commercial history whilst on the other hand, there are violent protestations that this view is grossly exaggerated and for that reason misleading. It is not the purpose of this work to enter into this controversy but merely to examine the various aspects of Indias' commercial development.

The present work was planned two years ago but owing to a great many difficulties, it had to await publication till this day. Moreover, my recent publication on the trade of India could not embody many important topics and I felt it necessary that they should be dealt with in a separate book. Further, the students in the Inter Commerce class in my college were always complaining of the lack of a suitable text-book on Commerce with special reference to India. Their importunities combined with my willingness to publish something on the subject has resulted in the publication of the present book.

I have of course taken the Bombay University syllabus for Inter Commerce Examination as the basis

for the present work although I have changed it wherever necessary to make it more comprehensive and precise. The existing publications on the subject are either too general or relate to conditions beyond India with which our students are unfamiliar. The need for a book on commerce with special reference to Indian conditions was therefore felt from a long time and it is hoped that this humble effort of mine may prove useful to the readers. This utility would be the only justification and reward for my efforts and I wish to make it clear that the book cannot profess to have made any original contribution to the subject, although it might for that reason find a legitimate place amongst a host of publications by the 'economist's of our country.

The plan of the book has been made as simple and comprehensive as possible. After having briefly traced the history of world commerce, I have examined the various aspects of the important subjects of Marketing in Chapter II, which deals with the functions of markets, methods of marketing and marketing conditions in India. Chapter III has been devoted to the subject of Finance which embodies topics like need for finance, sources of finance, debentures, shares and conditions of finance in India. The subject of Transport has been discussed in detail in Chapter IV whilst Insurance is to be found in Chapter V. The working of the Mercantile Houses in India is examined in Chapter VI and commercial organisation, being a very important part of commerce, has been allotted a separate Chapter VII. The subject of Commercial Efficiency has been analysed in Chapter VIII.

I must here express my sense of gratitude to Dewan Bahadur Hiralal L. Kazi for having kindly contributed a foreword to the Book. I must also express my thanks to Principal L N. Welingkar of my college for having given me constant encouragement and special facilities for study in the college premises. I am thankful to Mr. P. K. Garde, B. A. (Hons) the Librarian of our college for having helped me greatly in finding books and references. Mr. V. J. Mehta also did not spare any pains to assist me and has been a source of great encouragement in the publication of the present book

Mr. P. L, Khanolkar has obliged me greatly by assisting me through the many formalities connected with the publication of the book. Messrs. G. V. Mahashabde, S. A. Nerurkar and N. H. Kolhatkar have all rendered me invaluable assistance during the preparation of the manuscript and it would be no exaggeration to say that, but for their kind help and untiring zeal, it would have been difficult, if not impossible, to issue the book in so short a time. Mr. G. V. Mahshabde has compiled the Index for which I am thankful to him.

Messrs. S. V. Kamath and K. Nagoji Rao, L.P.T. (Madras) of the Bombay Radio Press owned by Messrs. Fazalbhoy Ltd, have placed me in a permanent debt by printing this book in a excellent manner and by having made it possible for me to issue it in time.

Podar College, Matunga. **S. A. Palekar**

PREFACE TO THE SECOND EDITION

WHEN the first edition of this book was published last year, I was not quite sure of the response it would be able to secure from students. But the fact that a second edition is now found necessary may be regarded as a sign of the useful purpose which the book fulfils so for as the commerce students are concerned. I have not thought it necessary to revise the book and embody into it the most recent developments although I shall of course do so in course of time when all these developments assume a more definite and permanent form than at present. A text-book cannot keep pace with events which change with such tremendous rapidity as modern economic events. It must be the task of the teacher to fill up this inevitable gap in the lecture hall.

I have endeavoured in the following pages to create an interest in the mind of the student about the various topics and students are advised to go through the books suggested at the end of each chapter if they want greater details.

I must express my sense of gratitude to Mr. J. J. Pardiwalla, M. A. for having made very valuable suggestions from time to time and for having been a source of great encouragement in issuing this edition. Mr. V J. Mehta also rendered great assistance and took keen interest in the publication of this book.

Messrs. S. V. Kamath and K Nagoji Rao, L.P.T. (Madras) of the Bombay Radio Press owned by Messrs. Fazalbhoy Ltd., have once again placed me in a permanent debt by printing this edition amidst heavy odds and for having made it possible for me to issue it in time.

Podar College, Matunga. **S. A. Palekar.**

PREFACE TO THIRD EDITION

My object in writing this book was to provide a suitable text-book for students preparing for the Intermediate examination in Commerce of the University of Bombay. The need for a third impression is a sufficient assurance to me that the book is gradually fulfilling its original purpose. I am fully conscious of the fact that the book could be made much more comprehensive by a more detailed discussion of many topics. I have however thought it more desirable to postpone the idea to a later date when I shall have fully acquainted myself with the practical aspects of various problems such as marketing and finance which offer an extensive field for study particularly in the United States.

I must thank Mr. J. J. Pardiwalla, M. A. without whose help it would have been very difficult if not impossible to issue this impression. He has been kind enough to look after the printing and other things connected with it amidst his own heavy work. Mr. G. Mahashabde of Amrit Mudranalaya, has done an excellent job on the printing for which I thank him.

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S. A. Palekar,

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CHAPTER I

INTRODUCTION

IN its most comprehensive meaning, the term "Commerce" embodies all the operations connected with the act of exchanging goods and services. The term is generally applied to the distribution of commodities on a large scale and thus includes all the auxiliaries which are necessary for completing the process of production by placing the goods in the hands of the consumers. Generally, the following services may be regarded as being covered by this term :—

1. Transport
2. Marketing
3. Insurance
4. Finance
5. Warehousing

There was a time when this subject did not receive as much attention from economists as it deserved. This might have been the result of the obsession of their minds with the productive side of economic existence in those times. But as competition in world markets became more and more acute, both economists and businessmen realised that it is not enough merely to produce goods but that for a succeseful management of business due regard must be paid to the

technique of distribution of the goods produced. The modern complex mechanism of the economic life of society does not end with merely the production of goods. It is sometimes said that commerce begins where production ends.

It is thus true that commerce is concerned mainly with the distributive side of industry. But this does not mean that it is entirely unconnected with the other branches of economic activity. The intimate connection between commerce and production will be evident when the producer himself markets his products or by the vital necessity for a producer to keep his hand constantly on the pulse of the market and devote great attention to changes in demand or tastes of consumers. In general, it may be said that commerce is an important branch of both the theory and practice of economics. In economic theory it is closely linked with production, consumption and organisation whilst in practice it is closely connected with marketing, commercial correspondence, office management, salesmanship and advertising.

Distinction between Trade and Commerce:

In a theoretical discussion, a distincton may be made between these two words although in actual business it is very difficult to do so. For purposes of convenience, however, it may be stated that generally trade covers those activities which are *directly* connected with the exchange of goods and services whilst commerce, as already stated, embodies all the services directly or indirectly associated with the act of buying and selling commodities. Thus commerce includes trade but trade does not include commerce.

Scope of the Subject:

The vastness of the scope of the subject is quite evident from the above discussion We may now see in further details the ground that must be covered in order to obtain an approximately correct idea of the various aspect of the subject.

1. **Marketing:** The important topics that will have to be dealt with under this heading are, the various methods of marketing and the factors determining the choice of a particular method We shall also have to study the psychology of buyers as a distinct class. Then we shall have to examine the different functions of marketing such as grading, storage, sampling, branding, packing, insurance etc. We will then analyse the marketing conditions in India and see how best they can be reformed.

2. **Transport·** We must here study the great importance of transport to commerce and and also see the advantages and disadvantages of the different means of transport. Then we must discuss the important problem of co-ordination between the different means of transport. This might be well supplemented by reference to the special conditions existing in India. Government of India's transport policy will also be examined with a view to showing its intimate connection with the economic progress of the country.

3. **Finance:** Money is required to distribute commodities and we shall have to see how the need for this finance arises. Then we must study the psychology of borrowers and lenders. We shall then have to examine the different sources of obtaining this

finance with special reference to the conditions of industrial finance in India.

4. **Insurance:** There are many risks to which the exchange of commodities is exposed and we shall have to examine the different types of risks in commercial enterpise, and see different ways of eliminating or minimising them.

5. **Commercial Organizaion:** There is a great need for some type of organisation for the successful management of a commercial undertaking. We shall, in the chapter dealing with this topic, enumerate the various types of official and non-official commercial organization designed to promote the growth of national and international commerce.

7. **Commercial Efficiency:** Every businessman engaged in the practical side of commerce is invariably confronted with the problem of maintaining the efficiency of his business and we shall see in the chapter dealing with this subject what the various factors that must be taken into consideration in deciding this efficiency are and what measures must be adopted in order to attain an optimum point of commercial efficiency.

A BRIEF HISTORY OF WORLD COMMERCE

Commerce began when civilization began. The development of world commerce and the rise of world empires are so strangely coincidental with each other that it will be interesting to take a retrospect of world commerce with special reference to India. Such a study will disclose to us how far commerce has been

responsible for world political catastrophies and how far it has been used as a weapon of capturing world political power.

The beginnings of commerce are to be found in the exchange of goods between the centres of the ancient river civilisations of Mesopotamia and Egypt, The trade was mostly carried on by caravan routes and the commodities consisted of dates, wool, fabrics, precious stones, dyes, olive oil, ornaments, spices and drugs. This commerce was mainly restricted to land routes, but the Pœnecians who came later as the Lords of the Mediterranean Sea were a sea-faring tribe and carried on trade along sea routes and in course of time became the masters of world commerce with Carthage as their chief centre. The commodities that were exchanged were mostly gold, precious stones, spices, linen, wines, metal and glassware and slaves. Later on, the Greeks came and drove away the Phœnecians and captured world commerce of which the chief centres were Athens and Alexandria. A noteworthy feature of the Greek mastery of world commerce was the introduction of metallic coin as a medium of exchange whilst the Phœnecian commerce was based on a barter system. The commodities were olive oil, figs, honey, pottery and metal, and textile goods.

The Romans who succeeded the Greeks were less inclined towards commerce than their predecessors, but the foundation of the Roman Empire opened a glorious era for the progress and development of world commerce. The centralized form of Roman Government, the administrative excellence of the Roman system of law and social ethics, a liberal outlook on life and

things had a very beneficial effect on the development of world commerce which flourished a great deal at that time. World commerce did not put on an aggressive appearance for the benefit of any one country, as it actually did a few centuries later, but the Romans showed that the best way was to utilise it as means of world prosperity. This era was marked by the intensified commerce between the East and the West. The subsequent fall of the Roman Empire in the West resulted in the rise of the East Roman or Byzantine Empire which, with Constantinople as its centre, became the connecting link between the commerce of Europe on the one hand and that of Asia on the other.

After the fall of Constantinople, Italy became the important centre of world commerce. Venice carried on operations as the distributing centre for the entire Continent of Europe. It was at about this time that the Hanseatic League consisting of North German towns come into existence with the object of stimulating German commerce. The military supremacy of the Arabs at about this time shifted temporarily the centre of European commerce to Mecca and places on the Spanish and Sicilian coast.

In the eleventh century the Crusades gave a new stimulus to the development of world commerce. The Christian and the Mohamedan races became in turn the masters of world commerce. The 15th century will be remembered for some of the most momentous episodes in the history of world commerce viz. the fall of Constantinople to the Turks, the rounding of the Cape of Good Hope by Dias and the discovery of

America by Columbus. The Turks became the masters of commerce with the East while the Portuguese and the Spanish monopolised trade with the new world. As a result of this they amassed huge fortunes and vast territorial possession and spread the boundaries of their Empire far and wide.

The subsequent fall of the Portuguese and Spanish Empires gave rise to the Dutch Empire which became the most powerful commercial nation in the world in the 17th century. The Dutch monopoly of world commerce and the Dutch commercial prosperity became an eye-sore to other countries like England and France and they also began to aspire to become great maritime and trading nations. The 17th century thus witnessed an era of battles amongst these rising powers for the mastery of world commerce particularly with India. The wars of religion gave place to wars of commerce. East India Companies were started in all these countries to capture the trade with India.

The downfall of the Dutch Empire and the defeat of the French armies in India left the English as the masters of the most coveted prize in world commerce viz. a monopoly of trade with India. The world at this time witnessed the most phenomenal rise in the value of world commerce in almost every country. This is known in economic history as "Commercial Revolution". Every country began to export and import many times more than before and there was intense commercial activity all over the world. This was followed by what is known as "Industrial Revolution" during which the industrial production, first of England and then of other countries, increased tremendously.

During the 18th and the 19th century commercial policy began to be developed as a more scientific technique than before. People began to ask some fundamental questions such as: What should be the attitude of a country towards its colonies? Whether or not a country should restrict the imports of foreign goods? The subsequent developments of world commerce provided answers to thesequestions. England wanted markets for her manufactures and so she preached the gospel of free trade to the world but when she found that her home market began to be flooded by manufactures from India and other countries she adopted a protectionist commercial policy. Colonies were used as sources of raw materials and markets for manufactures.

So long as only one country like England had the monopoly of world's industrial production, things went on smoothly. But when other countries like Germany began to compete with British manufactures, a keen rivalry for the mastery of world commerce arose between these two countries. This finally ended in the Great War of 1914-18.

After the war, the great problem was to resume world commerce on an equitable basis. But many countries did not show any willingness to compromise and pursued selfish economic policies. Some of them raised-huge tariff barriers against foreign manufactures, whilst others dumped their manufactures on foreign markets by a deliberate depreciation of their national currency. This resulted in only some countries temporarily having a flourishing commerce whilst others found themselves with a very unfavourable trade balance. With suspicion and selfishness all around, it was

difficult to reorganise world commerce along any systematic lines. The chaos of exchange rates, terrific currency inflation, heavy war debts, reparations and other obstacles made this task more difficult than before. World commerce became almost impracticable to such an extent that trade agreements, preferences, exchange clearing, barter agreements and other artificial devices were found to be necessary to stimulate it. Each country began to aspire to become independent of other nations and to reduce her commercial relations with the world to a minimum. It is at this juncture that the present war has broken out and time alone will prove whether or not it is a war for the mastery of world commerce.

CHAPTER II

MARKETING

MARKETING is the process by which the goods pass from the producer into the hands of the consumer. For doing this the goods must be brought together in one place, stored, graded and packed. All these operations of assembling, grading, storage, packing etc. may therefore be regarded as being covered by the term marketing. The fundamental idea behind marketing is the sale of the goods. Marketing thus makes possible the exchange of goods for money and vice versa.

Marketing, however, is a comprehensive term. It would of course be difficult to give a complete definition since the term marketing can be interpreted in various ways. Some writers confine its scope merely to the transfer of finished goods from the producer to the consumer. This however, is not correct because the process of marketing starts even when the raw materials are being moved from one stage of manufacture to another. Another fallacious concept about marketing is that it is concerned with the equitable distribution of surplus. It may, however, be stated that the existence of markets is not the result but the cause of the existence of surplus. Manufacturers produce much more than they

need for their immediate consumption only because there exists the machinery of marketing with the help of which they can dispose of the surplus.

The following definition given by Mr. Charles C. Knights in the *20th Century Business Practice* may be regarded as sufficient for all practical purpose: "Marketing embraces all efforts made in the discovery of consumers, actual and potential, for commodities and services and the steps taken in securing adequate distribution."

Marketing *vs.* Merchandising:

Mr. Knights makes a further distinction between marketing and merchandising. According to him the term marketing covers all the efforts made by the manufacturer to get his goods on to the dealer's shelves whilst merchandising signifies what is done to get those goods off the dealer's shelves and into the hands of the public. When, however, we recognise that the process of marketing is not complete until the goods are into the hands of the consumers, the need for this distinction does not arise at all. What is intended to be conveyed by the term merchandising is probably the act of actual selling,

Mr. Macklin defines marketing in the abstract as the creation of place, form, time and possession utilities whilst in the concrete it implies the rendering of the following types of necessary services :—

1. Assembling.	2. Packing.	3. Packaging.
4. Processing.	5. Transport.	6. Storing.
7. Financing.	8. Distributing.	

Pre-requisites of Marketing:

In order that marketing should attain an omnipotent position in society the following conditions may be regarded as essential:—

1. Existence of demand for a commodity.
2. Existence of supply for the commodity.
3. A single price
4. A highly developed monetary and banking system
5. Private property.
6. Freedom of contract
7. Diffusion of property rights.
8. Division of labour.
9. A well-developed system of transport.

Importance of Marketing·

In order to realise the incalculable importance of marketing, we must examine the nature of economic activity. In the present economic world, the main purpose of every type of economic activity is to satisfy human wants which are of such complex character that a single individual is incapable of satisfying himself all his wants. He has, therefore, to rely upon the other members of [his society. In the primitive stage of economic development every man was self-sufficient unto himself and produced those things which he needed. Later on, however, as his wants increased, he had to restrict himself to that product for which he was best fitted and to exchange his surplus with the other members of the society. It will thus be obvious that the concept of the division of labour is a necessary preliminary in the origin and development of marketing. Marketing can therefore arise only in well-developed

society and cannot exist in a Robinson Crusoe economy.

In recent years the number of men engaged in marketing has increased tremendously and along with this the scientific study of the process of marketing has also attracted attention of not only the economists and university professors but also practical businessmen. The chief factor operating to assist and hasten this development has been the *change of conditions* in the machinery of marketing itself. Electrical appliances, radios, motor cars, and other mechanical devices are figuring more and more in the every day life of the people and are responsible for increasing the speed and quantity of the exchange of goods through the process of marketing. Businessmen are now recognising that marketing is a science which should be carefully studied.

The need for the scientific study of marketing arises from the inability of the producer to know how and where to sell a particular commodity having regard to the psychology and the taste of the consumers. The public are also unable to make a choice from the great variety of commodities placed on the market. The problem of marketing also arises when new inventions or new commodities make the old machinery or goods obsolete. So also the concentration of urban population gives rise to the problem of marketing the various goods *e.g.* the hotel and restaurant industry in the U.S.A. The third problem of marketing is concerned with the problem that arises when the marketing machinery changes *e.g.* when the producer eliminates the wholesaler and markets his own goods. Increased state activity in the economic sphere has also given rise to

new marketing problems. *e.g.* President Roosevelt's New Deal which required the taking over of agricultural produce for marketing by the State. Similarly, the regulation of the production of potatoes in England by Parliament. This interference by the State has increased particularly after the Economic Depression of 1929.

Economics of Marketing :

We have seen above that exchange is an inevitable characteristic of modern economic society. As a natural result of this two concepts follow *viz.* the concept of economic value and the concept of money. The latter concept being of a more complicated nature we may confine ourselves to the former.

When commodities are exchanged the important question arises: How should they be valued? What should be the basis on which their market price should be fixed? The classical economists believed that the value of a commodity depended upon its cost of production in terms of labour only. Later on, however, one group of economists, now known as the Austrian School, expressed the view that the value of a commodity was determined by its utility to the consumers. It was Alfred Marshall however who brought about a synthesis of these two extreme points of views and stated that the market value of a commodity is determined by both those factors together and not any one of them separately. He believed that the market value of a commodity balanced the marginal cost of production and marginal utility. To Marshall, marginal cost of production implied the cost of the most expensive increment necessary to bring about a full utilisation of

the factors of production or to attract a flow of that factor towards the production of the commodity. According to Marshall the forces of demand and supply were like the blades of a scissor. Later on, however, a *displacement* or an *opportunity* element was introduced, first on the side of supply and recently on that of demand. On the supply side it was stated that the cost of production of a commodity was not the cost incurred to attract the factors of production, but that incurred to detract them from other avenues of production open to them. This is known as Wieser's Law of Imputations. Similary, on the demand side, the value of a commodity is determined not by the intrinsic utility but by the amount of utility foregone to obtain it. It is at the intersection of these two forces that the market price of a commodity is determined. There are many subtleties and complications in the perfection of the concept of market price, and market equilibrium, which are, of course, beyond the scope of this book.

Limitations of Marketing:

Although the process of marketing is recognised to be an indispensable adjunct of modern economic society, the process is not allowed to be carried on unhampered according to the sweet will of either the buyers or the sellers. A number of restrictions or limitations are imposed upon marketing which may now be briefly considered.

The most powerful limitation upon marketing is the existence of a keen competition amongst the manufacturers. Then again, the organization amongst the workers engaged in marketing resulting in strikes, high wages etc. also makes it difficult for adopting an unimpeded course

of marketing commodities. State legislation intended to protect either the workers from the tyranny of the employers or the consumers from the sellers demanding a high price or selling a produce of a poor quality or legislation intended to regulate transport and marketing conditions also exercise a very important influence upon the process of marketing. Finally, the customs regulations, restricting the export or import of a commodity may also be regarded as a definite limitation upon a universal spread of marketing.

Cost of Marketing: Whilst studying the subject of marketing, it is very essential to examine the cost of marketing the goods from the producers to the consumers Such a study is useful for judging the efficiency of marketing organization and the equity of market price.

Generally, the cost of marketing is represented by the difference between the price paid to the producer and the final price paid by the consumer. The various elements that must be taken into account while calculating the cost of marketing are . the cost of transport, labour, handling, storage, packing, insurance, advertising, interest and depreciation. The factors influencing the cost of marketing are :

1. *Perishability*. The greater the degree of perishability of a commodity, the greater is the cost of marketing.

2. *Waste in Transit:* If a commodity is liable to a considerable loss of quantity whilst being transported to its market, the greater will be its marketing cost and *vice versa.*

3. *Quantity:* If a commodity is marketed in huge quantities, the charges for handling will be considerably less, and consequently the cost of marketing will be reduced.

4. *Seasonal Supply:* If a commodity is produced throughout the year storage is unnecessary and only small quantities need be marketed at one time. This necessarily results in reducing the cost of marketing.

5. *Packaging.* The need for providing suitable packaging material adds to the cost of marketing.

6. *Aids to Marketing:* If a commodity needs some special aids for being marketed, such as expensive advertising, salesmanship etc. this will have to be recovered ultimately from the consumer and the cost of marketing is to that extent increased.

7. *Method of Production:* If the time taken by the manufacturing process is long, this will entail the holding of huge stocks of intermediate goods and this will raise the cost of marketing. Similarly, if the method of production is such that it gives rise to valuable bye-products, this will greatly influence the cost of marketing the main product.

8. *Bulk:* Greater the bulk of the goods, greater will be the cost of marketing,

9. *Grading:* If the product can be well graded the

cost of marketing will be reduced to a considerable extent and *vice versa.*

What is a Market ?

A market may be regarded as a territory or a group of merchants in which the operations of buying and selling all sorts of goods and services are undertaken. It may consist of either a geographical unit or may represent a collection of traders. The idea of place is not essential to the concept of marketing although in common language it is supposed to be so. Theoretically a market may be defined as the area within which the forces of demand and supply operate in such a way as to establish a single price. Mr. J. Stephenson defines a market as that area, large or small, within which every portion of supply is equally available to each portion of demand.

Types of Markets

In distinguishing one market from another various standpoints may be taken.

1. *Location* of the market may be taken as the basis of classification so that markets which are situated near by, may be termed as local markets, those situated within the country as the Home market, whilst those situated outside the country may be called foreign or world markets, The circumstances giving rise to local markets are localised demand, easy transferability, high degree of perishability and ban on the export of the commodity to outside places A world market on the other hand can come into existence only in the case of that commodity which is demanded all over the world and which can be transported at cheap

rates and lends itself easily to a high degree of standardisation.

2. *The name of the product* itself may serve as the basis of distinguishing the market, *e.g.* wheat market, cotton market, fruit market, money market, etc.

3. The amount of time involved in the transaction also enables one market to be differentiated from another, *e g.* Spot market, where the goods are to be bought and sold immediately upon entering into a contract of sale ; Future market where goods are bought and sold at a specified date in future although the contract of sale is entered into at present.

4. *Price* may be taken as the criterion of difference between one market and another, *e.g.* competitive market in which there is a keen competition amongst the sellers ; monopolistic market in which there is a monopoly of either the buyers or the sellers.

5. *The nature of selling* may also serve as the basis of distinction *e.g.* the wholesale market in which a commodity is sold in huge quantities ; the retail market in which it is sold in small quantities ; black market in which it is sold in a clandestine manner in contravention of a Government regulation particularly referring to fixation of price.

6. *The nature of control of the market* may also be taken as a basis of classification, *e.g.* Regulated markets in which the markets and conventions within the market are laid down by law ; Municipal markets in which the controlling authority is the Municipality.

7. *The oranisation amongst the buyers and sellers* may also give rise to a distinct class of markets. e.g. perfect markets in which there is no combination either amongst the buyers or the sellers and in which there is free competition and easy communication amongst them. When this is not the case a market may be regarded as imperfect.

Classification of Market in India:

The markets of India are mostly for agricultural produce. These may be divided into the following ·

1. *Primary Markets* These are the nearest assembling centres for the agriculturists. They bring their produce to these markets in the nearest village which also serves as a general shopping centre for them.

2. *Secondary Markets*: These are situated in the important towns and function systematically with many intermediaries. They are subject to Government regulation in some cases.

3. *Terminal Markets*: These are mostly situated in port towns and constitute an assembling place for all produce generally intended for export to foreign countries. These markets operate on the most modern style and possess a highly developed technique of marketing.

Methods of Marketing:

In primitive society the simplest method of marketing was a direct sale by the producer to the consumer. Gradually, however, as the economic structure became more complex this simple method was abandoned in

favour of a more complicated one consisting of a chain of innumerable intermediaries between the producer and the consumer.

In the modern business world, the following methods of marketing may be considered as common.

1. *Regular Method*: Under this method the process of marketing is split up into its many component parts owned separately by different types of middlemen. There is generally inadequate communication amongst these parts with the result that this method in actual practice proves to be very expensive, inefficient, and uncertain.

2. *Integrated Method*: Under this method of marketing whilst the process of marketing is split into its component parts as under the regular method the different stages are owned and worked by a single concern instead of being separately and independently carried on by many concerns.

3. *Direct Method*: Under this method the producer and the consumer come into a direct contact and the services of the middleman are completely eliminated. This is generally used in the case of perishable commodities like, milk, fruits, vegetables etc. Generally, the direct method is found to be expensive because the producer is not in a position to provide economically the essential marketing services such as grading, storage etc. Furthermore, the consumer is separated by long distances from the producer and individually does not demand sufficiently large

quantities to justify the incurring of heavy cost of tranport and handling.

The Direct Method is used by the following classes —

(a) Farmers who live near cities—frequently they sell their products like vegetables and fruits and dairy products directly to the consumers This method of marketing is rapid and consumer· receive fresh produce possibly at a lower price than from the retailer. The variety from which to choose and the stability of supply are not, however, so satisfactory as the retailer furnishes and the present tendency is for agricultural produce to be sold directly to manufacturers e.g. sugar to sugar factories and cotton to ginning factories.

(b) The sellers of services and natural products e.g. transport services sold directly to the consumer.

(c) The manufacturers in selling the industrial goods: They send out salesmen and catalogues. This method is most successful when the consumers are concentrated in a small area or buy in large quantities. Certain products are sold best directly to the consumer e.g. bakery products, icefruits.

(d) *The Mail Order Method*: This method can be used with advantage if the commodity is such that it can be described fully, because the buyer wants to know what kind of commondity he is going to get. The manufacturer uses this method because he cannot get satisfactory distribution through the middleman or because he wants to control the prices at which the commodity is sold ultimately to the consumer. The

limitation of this method lies in its dependence on the adequacy of description and the faith of the buyer in the honesty of the seller. Then again the buyer usually does not like to take the trouble of filling in the mail order form. The goods generally sold by this method are toilet goods, hosiery, home furnishing material, book etc.

(e) *House to house selling method* This method is used when the sale of certain product requires intensive salesmanship and the retailer is not in a position to do the work. The manufacturer therefore, undertakes the job and appoints expert salesmen to sell the product. This method insures a close contact between the producer and the consumer and the former can obtain first-hand information about the changing wants of the consumers. The goods that are sold by this method are generally : dairy products, bakery goods, magazines, and cooking utensils. The limitation of this method is that the consumer resents too frequent a ringing of the door bell and the salesman may not secure an interview in a large number of cases. The maintenance of expert salesmen on the staff is a difficult and expensive work for the manufacturer.

(f) Retail stores owned by the manufacturer himself. There are some obvious reasons why this method is adopted by the manufacturer. The establishment of a large number of retail shops transfers the control of the market from the hands of the manufacturer to those of the retailers and the former does not like this. Secondly, the retailers may undertake to produce some goods and thus encroach upon the legitimate field of the manufacturer who takes upon himself the retailing

function as a retaliatory measure. To be successful in this method the manufacturer must be a man of great financial resources, managerial ability of supervision and he must produce on a very large scale.

4. *Co-operative Method of Marketing.* The ideal of co-operative organisation as applied to marketing is to establish amongst traders a damocratic means of employing middlemen to render essential marketing services to them The pre-requi ties of this system are firstly, suff cient business When co-operative organisations are started with too small a supply of raw materials or too limited a possibility for business expansion almost invariably the cost of operation is greater than that incurred by private firms As a result farmers lose their interest and the method fails. Secondly, this method requires confidence amongst the members Lack of such confidence may arise owing to ignorance of co-operative principles. Thirdly, leadership, Fourthly loyalty.

This method differs from other methods in two ways:

1. The establishment and operation of a marketing system for service, and not for profit

2. Disposition of earnings or savings. In private organisations they go into the pockets of proprietors In this method however it is divided amongst the members The corporate organisation seeks to establish and maintain a distributive system to utilise the producer's need for marketing services, to invest capital and make profit for the common good.

The advantages of this method are. (i) Marketing services at a lower cost. (ii) A higher portion of the consumer's price is obtained by the producers, (iii) By investing capital in co-operative undertakings producers are able to make sellings which otherwise would have gone to the private marketing agencies. (iv) Creating in a community the conditions which promote or ensure a supply of high grade products both uniform in quality and adequate in quatity, (v) It saves a great amount of marketing expense of the farmers (vi) By determining the aggregate needs of the producers and by bringing their orders together, co-operation increases the size of a given business and makes large scale economies possible. (vii) By uniting the producers into an interested working group it safeguards their mutual interests and enables them to face any contingency successfully. (viii) It inculcates a sense of mutual responsibility amongst the farmers and thus helps social progress in general.

Important Features; The essential differences in the form of organisation for co-operative purposes are found in the provisions regarding membership, capital ownership, rate of interest on capital, disposal of savings and method of voting. Membership is restricted to those who are directly connected with the purpose of co-operation, e.g. in co-operative marketing societies only the producers are allowed, ownership of capital is based on the principle of limited liability while individual holdings are also restricted to avoid the possibility of cliques and rings. Interest on capital is fixed and is nominal. Generally, the profit motive is not so predominant as in private methods. Profits are distributed amongst members or

invested for their common good. Principle of voting is one man one vote, or the share vote method. The managemant is generally in the hands of a Board of Directors elected from amongst the co-operators and the routine management is in the hands of the manager.

Co-operative method of marketing is of special advantage in those circumstances in which there is an uneconomic competition amongst the various agencies participating in distribution of commodities to consumers Co-operative marketing eliminates this wasteful competition and gives a sense of social responsibility. Thus the profits of the co-operators are not only increased but the cost of marketing is also considerably reduced When the producer entrusts the work of marketing to a private agency he has to pay heavy charges which include the profits of the marketing agency. The purpose of the co-operative method is to render essential services according to the most efficient and cheapest methods and to distribute the advantages gained thereby amongst the co-operators.

The co-operative method is of special advantage when the farmers do not get an equitable price for their produce. Co-operation in these circumstances by uniting the common interests of the producers under a centralised agency enhances their bargainning power and also prevents their being exploited by the middlemen. The co-operative method of marketing is particularly advantageous in the case of agricultural produce which needs proper grading and storage facilities. By bringing together the entire produce co-operative marketing makes it possible to grade and store the produce conveniently and cheaply by eliminating duplication of grades etc

Co-operation is of great advantage especially in the assumption of risks attending the marketing of commodities. If the nature of the business is such as to involve businessmen into huge losses, then the co-operative method of marketing minimises the risk by spreading it amongst other businessmen.

This method of marketing is of special advantage in creating in a community the conditions which promote or ensure a supply of high grade product both uniform in quality and adequate in quantity. Co-operative method of marketing is of special advantage when a greater emprasis is to be laid upon the quality of the product so as to fulfill the requirements of the consumers in the most satisfactory manner. It also helps to determine the aggregate needs of the producers and by bringing together their individual orders and thus increasing the size of the business unit, to derive the economies of large-scale production. In no other field is co-operation more advantageous than in the field of distributing market information. It enables the producers to study market conditions and adjust their production to the consumers' requirements. As a result of the co-operative method of marketing, a progessive attitude amongst farmers is inculcated which leads to improvements not only in the organisation and performance of production and distribution but also in the educational, social and religious phases of the rural economic life.

Factors which determine the Choice of Particular method:

We have discussed above the different methods of marketing and now we shall study the circumstances which lead to the choice of a particular method by the producers.

1. *The Nature of Demand :* If the consumers demand small quantities of a commodity at one time, it is obvious that the indirect method is the most suitable one. The commodity must be markcted through the retailers. On the other hand, if a big unit of the commodity is demanded there will be no need to employ many middlemen and the cost of selling can be considerably reduced by adopting the direct method.

2. *Location of the Producers* The choice of a particular method of marketing a commodity is considerably influenced by this factor. If the producers are separated by long distances, it is obvious that their produce will have to be assembled and distributed by middlemen through an indirect or regular method of marketing.

3. *Location of the Consumers*: If the consumers are located at a place far away from the place of production, the adoption of a direct method will be very difficult. The producer must therefore approach the consumers though the medium of middlemen, salesmen etc.

4. *Nature of the Product*: If a commodity is highly perishable it must invariably be marketed by the direct method as any delay consequent upon the existence of middlemen is injurious to the quality of the product.

5. *Timeliness*: Commodities like the daily newspapers and monthly magazines must be marketed before the time to which they relate. This there

fore calls into existence a very specialised and efficient method of marketing

6. *Margin of Profit*: When the margin of profit is small the method of marketing the commodity should be such as to eliminate the middleman so that there might be some inducement to the seller On the other hand, a large margin may premit the existence of many middlemen.

7. *Competition*: It there is a keen competition in selling a commodity by a particular method, that method must be abandoned in favour of another so that by its very unconventionality the sales might be stimulated e.g. some toilet manufactures are so difficult to be marketed by the indirect method that many producers adopt the house-to-house selling method.

8. *Method of Production*. A manufacturer who is producing a commodity under conditions of diminishing cost will adopt direct methods of marketing so that he can effect very large sales and reduce his cost of production.

Factors Influencing Buying Practices:

1. *Sex*. Men as buyers differ from women as buyers. Most of the family shopping is done by women who are found to be very patient and persevering buyers, who will always insist on getting the full worth for the price which they pay. They are fond of haggling and the counter salesman finds them to be very exacting. They are, however, easily attracted by showy things, as is evident form the sales of beauty preparations, silks,

perfumes, being restricted to women, while the sales of more durable things like motor cars, refrigerators etc are restricted to men.

2. *Age:* This factor also exercises great influence upon the buying practices in any particular locality. If, for example, there are plenty of children in the area surrounding a shop, this might stimulate sales of goods like chocolates, toys, etc.

3 *Custom*: The superstition and custom of the buyers influence their buying practices to a large extent e.g in Egypt a particular brand of soap was not bought by the people and upon investigation it was found that the English name of the soap meant an inauspicious word in the native language.

4 *Inventions* People always like to buy something that is new and this to a great extent explains the popularity of new substitutes for old products

5. *Style*: Buyers always like to possess those things which are in fashion and a businessman must always be very careful in studying current styles to safeguard himself from a change in the buying practices of his clients resulting from a change in fashion.

6. *Standard of Living* A merchant must carefully study the standard of living of the area in which his shop is situated. He must stock those goods which are appropriate to that standard because the standard of living determines the buying tendencies of the people

Stages of Marketing When commodities are marketed they must be assembled in one place by means of transport and stored in godowns. They should then be properly graded and then packed, according to some uniform specifications. They must be branded properly so that the consumers can identify them very easily in the market. When the goods are in the warehouse they must be properly and adequately insured against risks of fire or theft. Samples might be taken if necessary and the goods sold ultimately to the buyers in the market

MECHANISATION OF MARKETING:

Aids of modern science and automatic machines. Marketing in the present world of new scientific inventions has become a highly mechanised process and we shall now see how modern science has rendered valuable assistance to marketing.

Assembling: Commerce begins where production ends. After the goods are manufactured they must be assembled in a central place to be conveniently distributed to consumers. It is obvious that the great developments in transport which has been brought about by modern science have considerably facilitated the work of assembling the goods, e.g. in the absence of the discovery of the steam-engine railway transport would have been impossible and assembling would have taken long time. This would have meant too long a period of waiting for the manufacturer to recover the price of his goods and also deterioration in the case of perishable commodities. Modern marketing undoubtedly owes gratitude to the discovery of steam engine which has made quick movements of goods possible and

has thus increased the rate of production and distribution in the modern community. The modern ships driven by electric propellers are carrying the commodities of world commerce to the remotest consumers on the face of the earth. Then again valuable commodities of small bulk are being carried very quickly and safely between distant places by the aeroplane Thus we see that these inventions in transport have eleminated the risks of loss to the goods considerably and have reduced the final cost to the consumers. Whereas formerly it took months and years for the goods of one country to be carried to another, and that also without any assurance of reaching their final destination, these modern developments have made the work of assembling and distribution very much easier than before. Similarly, the adaptation of the motor vehicles to the machinery of marketing has not only provided it with valuable publicity but also made it possible for the traders to canvass and distribute their goods by the house -to-house method

Storage: After the goode are assembled they have to be stored for a considerable period of time in order to bridge the gulf between production and consumption and here the discovery of electricity in modern science has proved of invaluable help to modern marketing. Cold storage facilities provided by electricity have enabled perishable commodities to be transported over long distances. Similarly, in the U.S A. and Canada, electric elevators make it possible to store wheat in large bulk and also to load it into the steamer much more quickly than before. Meat and dairy products from Australia and New Zealand can be marketed in distant countries like England and the

Continent only because of cold storage facilities.

Publicity: It is generally accepted that publicity is an important aspect of modern commerce, and if we examine the various methods adopted for the purpose we can very well see that modern science is a handmaid to modern commerce in general and modern marketing in particular. e.g. film publicity, publicity by means of electric tubes and bulbs etc.

Commercial Information The vital necessity of transmitting rapidly commercial information throughout the world is being fully realised in the modern commercial world. The need for prompt quotations of prices of commodities and shares in the important markets of the world and the necessity of distributing information about world events affecting world commerce is being so keenly felt that any negligence or waste of time in this matter would involve businessmen in huge financial losses. But fortunately, the wireless message made posssible by the discovery of the telegraph has enabled modern businessmen to send and receive important commercial information much more quickly than before. Thus we see that to-day cotton prices in New York and Liverpool Markets can be received in India within a couple of minutes, and the same can be passed on to the offices of cotton merchants by means of the telegraphic type. writers. Similarly, foreign exchange quotations which fluctuate very quickly can also be transmitted very easily and quickly by means of international telegraphic communications.

Then again inland messages can be transmitted

very quickly throughout the country and thus money, men and materials can be transferred from places where they are relatively abundant to those in which they are scarce so that any discrepancies in the economic life of the country can be immediately remedied. The radio also provides valuable help in regard to the dissemination of commercial and other information indispensable to modern business. Commercial news has become a regular feature of almost all the broadcasting stations of the world.

Automatic Machines for Marketing:

In the primitive stages of the development of commerce manual labour occupied a place of great significance in the marketing of goods. Producers sold the goods directly to consumers, but the advent of the machine age rendered production more and more *roundabout* and the need for specialised agencies for distibution was keenly felt. Later on, it was found that, as production and distribution became more and more specialised, the supply of labour was found to be more and more inadequate. The shortage of labour and the need for labour-saving device in the field of commerce was particularly felt in some countries of the west like the U.S.A and to-day we find that machines are comming into greater and greater use in the marketing of goods e.g. railway platform tickets are sold by means of an automatic machine Similary, chocolates, newspapers, razor blades, soap cakes, tooth paste, cigarettes and even dinner plates can be now made available to the consumer through the medium of automatic machines Some important sevices like those of recording weight, calculations etc are now sold through the medium of some mechanical device or other. The

most obvious advantage which the automatic machines confer upon the businessmen is the economy of human labour. This is of particular significance in countries like the U.S.A, where there is a general shortage of labour supply. On the other hand, in countries like India where there is a great amount of labour seeking employment, these machines may actually aggravate the unemployment problem. The automatic machines, so far as the seller is concerned, reduce his overhea- establishment cost by making it unnecessary to maind tain a selling staff.

Automatic machines render themselves with great felicity to the marketing of only small quantities of a uniform type of merchandise of very small bulk e.g. railway tickets, packets, of chocolates etc. They are useless for the marketing of heavy or bulky goods or goods having numerous qualities.

By eliminating the personal touch in the marketing of goods the automatic machines place the important art of salesmanship at a discount. Thus it is clear that the automatic machines cannot be used with any appreciable degree of usefulness in the marketing of those goods which require a close study of consumer's psychology, conversational salesmanship e. g. perfumes of various kinds, books or goods which require demonstration e. g. typewriters, duplicators. etc.

Automatic machines are useful only in the marketing of those standardised goods of small bulk which have already captured the market. e. g. Pear's soap cakes could be sold by means of automatic machines in which the costomer could put a stated amount

in coins at one end and get the soap cakes at the other. But the automatic machines are useless for marketing a new product. Automatic machines may be used with great advantage in the distribution of samples

Automatic machines in the marketing of goods serve also as an important source of publicity The machines themselves have the name and the description of the product painted upon them and they can be shifted into a strategic positition so as to attract public attention easily e.g, railway stations, street corners etc.

The usefulness of automatic machines is particularly seen in the case of those little articles of daily necessity in which the consumers are "caught short" e.g. safety razor blades, tooth pastes, cigarettes, etc. and they want to replenish themselves in a very short time

On the other hand, it should be remembered that there is every possibility of machines going out of order and thus disappointing the customers. And once a machine develops bad reputation, it will be very difficult to get back the clientele Thus the marketability and saleability of a product become unduly dependent upon the whims and caprices of a mechanical levice rather than its own intrinsic commercial quality. Then again, if a considerably long time has elapsed between two sales, it very often results in a slight deterioration of the goods inside the machines e, g. blades may get rusted, chocolates may lose their original taste and the customer has no other alternative but to accept the goods because he cannot get back the price money from

inside the machine. This either puts the customer to an unnecessary trouble of going to the office of the company to get the product exchanged or demoralises him a great deal.

To overcome these dangers, it is always necessary for the businessman to maintain an expert staff of inspectors to replace the stock inside the machine and machanical repairers when the machine goes out of order. And at times the cost of maintaining such staff may far outweigh the economy realised by the elimination of a sales staff and counter.

Furthermore, the businessman does not get the possession of the sales proceeds immediately the goods are sold. He has to collect the money by employing as collectors, persons familiar with the working of the machines. As it very often happens, the businessman is quite ignorant of the working of the automatic machines and he has to rely upon his inspectors and collectors and mechanical repairers for the return of the sales money and there is a great possibility of being defrauded by them.

FUNCTIONS OF MARKETS:

1. *Assembling*: This is the first stage in the elaborate process of marketing and consists of concentrating the goods in one place in order to facilitate their distribution. Assembling is very valuable stage of marketing because it makes it possible to secure large orders, to sell adequate quantities of different varieties to consumers, by providing huge quantities at one time it results in a considerable economy of transport costs. The process of assembling is of particular significance

in India, as we shall see in a later section below.

2. *Transport:* The provision of adequate, cheap and efficient means of transport is a very important factor in marketing as it makes it possible for the goods to be moved and marketed in the different places. Transport also determines the extent of the market The transport facilities provided must be punctual, fast, economical and sufficient for the volume of goods hat are to be marketed.

3. *Finance:* The process of modern marketing like the process of modern production has become more "roundabout" than before There is no direct exchange between the producer and the consumer and ownership of goods changes a number of times and each owner wants money to carry on his business pending the sale of the goods to the next intermediary and unlocking of his capital which is tied up in the goods Finance may be obtained either for long-term or short-term requirements and may be obtained from businessmen themselves or other outside sources. Ultimately, of course, the cost of financing is recovered from the consumers.

4. *Grading:* Grading is the process of sorting out commodities according to some uniform specifications relating to size, quality, colour, weight etc. Standardisation is the legislation of grades for comparatively long periods so that the consumers may be given a sense of certainty and security in regard to a particular grade

For a grade to be widely acceptable it must firstly

be widely known; secondly, it must be fixed over a comparatively long periods; thirdly, it should be honestly made and denote a distinct quality; and finally, the consumers must have full faith in it. Grading is necessary particularly in agricultural production because different pieces of land produce different qualities of the same commodity.

Advantages:

1. Makes possible sale of goods by mere specification without the actual inspection of the goods.

2. Facilitates the setting of insurance claims.

3. Reduces exploitation of the producer by the middlemen and ensures better prices to the farmer.

4. Facilitates the financing of marketing as the value of the goods can be precisely ascertained from the grade.

5. Makes good quality products available to the consumers without any trouble and at cheap rates.

6. Reduces the cost of transport and of selling as no marketing service is wasted on inferior and unsaleable goods which are likely to come back to the producer. It thus decreases waste in marketing.

7. Widens the market for a product since it can be sold by mere description.

8. Stimulates demand by facilitating publicity.

9. Reduces cost and risk of storage because the

owner of the goods knows exactly their value and also because grade products occupy less space.

10. Makes possible further trading and hedging in commodities.

11. Enhances the goodwill of a business.

12 Facilitates co-operative marketing by making it easier to pool together the produce of different members on a systematic basis.

13. Facilitates the process of production. Certain types of machinery can take in raw material only of a particular grade so that if ungraded raw materials are put in, the machinery may get out of order.

14. Makes the establishment of a market price possible. In the absence of grading, a new price must be fixed for every sale with the result that price quotations are impossible and the operators cannot get a precise idea of the market conditions.

15. Makes long-period contracts possible since both the buyers and sellers are sure of the quality of the goods

16. Makes auction sale more efficient. This consideration is particularly valuable in the case of perishable commodities like foodstuffs, diary products, etc.

5. *Storage* · Storage may be regarded as the process of holding the goods from one time to another. It is necessary because there is a considerable

time-lag between the production of a commodity and its consumption. Generally, production is seasonal but consumption is continuous. It is to adjust the supply of a commodity to the continuity of its demand that storage is necessary.

Advantages :

1. Protects the product. This is particularly important in the case of perishable commodities.

2. Preserves quality and sometimes adds to it as in the case of wine.

3. Enables the intermediaries of marketing to hold the goods until there is a demand for them.

4. Makes possible the assembling of huge quantities in one place and by facilitating bulk handling reduces the cost of transport.

5. Transfers risk from the merchant to the warehouser or to the insurance company.

6. Places market finance on a better basis. The warehouse receipts can be used as collateral security to obtain loans from the banks.

7. Broadens the market for a commodity because while the goods are stored the merchant can find out the best place to sell them.

8. Regulates flow of a commodity to the market so as to adjust it to the demand and thus decreases price fluctuations.

9. Increases profits because a suitable time can be chosen to sell the goods.

10. Ensures a steady supply of raw materials and finished goods in uniform quantities.

11. Facilitates pooling of resources or integration of industry for purposes of co-operation or economy.

Disadvantages:

1. Enables the merchants to manipulate the market price to their own advantage.

5. Enhances the price to consumers e.g, cold storage are costly.

6. *Sampling:* Sampling implies the separation of a representative part of a commodity from its bulk in order to give a precise idea about the product to prospective consumers The common objects of sampling are to find out the saleability of an old product, to push a new product amongst the consumers, to create interest in a product amongst the retailers, and to stimulate the sale of a sagging product. The general] principles that should guide the method of sampling are, the adequacy of the quantity, accurate record of the recipients, economy of distribution proportionate to the profits arising from it and elimination of waste. Samples may be distributed either by the house-to-house method, through advertisements, through a scheme of competition, through retailers, along with other products (e.g. a sample of tooth paste along with the tooth brush), through automatic machines or through professional men (e g. samples of patent medicines should be distri-

buted through doctors). The great advantage of sampling is that it makes the sale of a commodity possible without having to move its entire bulk.

7. *Branding:* Branding is the association of certain names with certain manufacturers. The main objects of branding are: to create confidence amongst buyers, by ensuring them a definite quality, to give the producers a sense of responsibility for maintaining uniformity of quality. Branding facilitates publicity to a very great extent. Brands may be classified into: 1. Trade marks. 2. Private brands. 3. Store labels. 4. Copyrights. 5. Package design. 6. Dealers' or manufacturer's name. 7. Symbol.

The great advantage of branding is that it enables consumers to identify products and protects them from inferior imitations. Generally, the manufacturer's name is used to denote a brand although symbols, package designs and labels, are equally common. The brand should be so chosen as to give a quick and correct idea of the goods to which it refers. Very great care must be exercised in selecting a brand appropriately to the product. Dealers are very well protected by law in regard to the rights of their particular brand.

8. *Packing:* This is a very important aspect of marketing both from the standpoints of the producers and that of the customers. Packing takes various forms such as crates, boxes, jegs, jars, tins, wrappers, glass containers, cardboard or cloth covers etc.

Advantages:

1. Protects the product.

2. Facilitates handling.

3. Reduces or prevents shrinkage, deterioration and breakage.

4. Serves as a valuable source of publicity to the manufacturer.

5. Ensures uniformity of quality and stability of price to the consumers.

6. Attracts buyers by its aesthetic appeal.

7. Reduces freight and storage cost because well-packed goods occupy smaller space, than badly packed ones.

8. Widens the market for a commodity since well-packed goods can travel over long distances without being deteriorated.

9. *Insurance:* Modern marketing is open to many risks such as those arising from price fluctuations, perishability etc. The need for insurance is keenly felt in the complexity of modern commercial organisation in order to eliminate or minimise the above risks. The entire problem of insurance is examined in details in chapter V to which a reference may be made.

10. *Market Intelligence:* Information about marketing conditions is of invaluable help to the operations on the market and thus constitutes an essential function of the process of marketing. It enables people to know the changes in the price, the psychology of the market and other important developments assisting them to take prompt and accurate decisions. Generally market intelligence is transmitted through the medium of the press, Government publications, post office, radio and printed market reports. We shall examine in details the state of market intelligence in India in a later section below.

11. *Market Research:* In recent years, particularly after the last world-wide trade depression, the function of market research has assumed very great importance. The general scope of market research is to find out how a particular product is being sold, to estimate the possibility of introducing a new product, to discover the buying tendencies and preferences of consumers in a particular market to find the degree of competition from other manufacturers and to indicate the measures which should be adopted to overcome that competition

Methods: Market research may be undertaken and carried with the help of the following methods:

1. *Statistics:* Accurate figures pertaining to the sales of a commodity in their various aspects should be collected and carefully analysed and important conclusions should be drawn.

2. *Personal Interviews:* As statistics are neither accurate nor reliable in all instances, the manufacturer should adopt the method of arranging interviews either with consumers themselves or with wholesalers and retailers and find out from them the sales particulars regarding his manufacture. For this purpose he must employ an expert staff of investigators.

3. *Government. Departments:* The manufacturer must keep himself in a close touch with the responsible officers of Government from whom he can obtain valuable information to guide his research policy.

4. *Questionnaire:* This is also very helpful method and may be adopted by manufacturers with great advantage. It consists in issuing a list of questions to consumers and obtaining answers from them. The replies so received are carefully examined and analysed for the purpose of research.

Advantages

1. Enables the manufacturers to know precisely the requirements of the consumers and thus to adjust their production to the tastes and habits of their customers.
2. Affords an opportunity to the consumers to place their grievences and wants before the manufacturers.
3. Saves considerable waste in marketing.
4. Makes a coherent market policy possible.
5. Raises the standard of life of the people by inducing them to take to new products.
6. Makes specialisation in marketing possible and thus eliminates wasteful competition.
7. Serves as a valuable guide to advertising.

MARKETING CONDITIONS IN INDIA:

Before we pass on to examine the marketing conditions in India, we may see how goods are moved from the place of production to their place of marketing. Such a descriptive sketch of marketing from farm to exchange in India might be facilitated by illustrating it with reference to some agricultural commodity like raw cotton.

Great difficulty in undertaking such a survey is experienced because of lack of uniformity of marketing procedure.

The farmer collects the raw cotton and puts it into gunny cloth and takes it either to the village market or to the nearest market town. Sometimes, however, the crop is sold before the harvest either to the local merchants, travelling traders, dealers or owners of ginning factories, The carts loaded with raw cotton plod through their weary way over the rough village roads and assemble in the compound of the town markets. In this market are also assembled a great number of brokers or dalals who are also known as *Adatyas* who purchase the raw cotton according to instructions received from their principals in the port towns. After having purchased the required raw cotton, the agent sends it to the ginning factory where the seeds are separated from the actual cotton by mechanical or other devices. After the cotton is thus ginned it is taken to the pressing factory where it is pressed under hydraulic pressure.

The various intermediaries of assembling agricultural produce in India are: commission agents, village baniyas, landlords, co-operative societies and trade associations. The bales are then taken to the railway station where the necessary arrangements are made for the reservation of railway waggons. The agent after paying the railway freight obtains the Railway Receipt which he passes on to his principals in Bombay and simultaneously sends them telegraphic advice regarding the despatch of the cotton bales. As soon as the advice is received, the firm in Bombay gets busy in clearing the bales from Wadi Bunder or Carnac Bunder, as the case may be, and stores them in its godowns. The goods are then loaded into the steamer for being exported to foreign markets.

With the above general survey before our minds, we may now examine in further details the conditions at the various stages of marketing in this country

Assembling: The firms of commission agents known as *Adatyas* move from village to village purchasing the produce and transporting it to the nearest centre in hired bullock carts. The adatyas may be divided into two classes · 1. The Pucca adatya and 2. The Kacha adatya The pucca adatyas are the most important channel of distribution of agricultural produce in India, whilst the Kacha adatyas act mostly as middlemen. The village baniyas advance loans to the farmers who repay it in kind and thus the baniya is forced to undertake assembling. The co-operative societies pool together the produce of the members and take the necessary steps of marketing it.

Defects of Assembling

1. The assembling of Indian produce is rendered difficult by the absence of well-planned means of communications.

2. The poor and illiterate farmer gets a very little part of the final price of the commodity because of the relatively stronger bargaining power of the adatyas, village baniyas and the landlords.

3. The co-operative societies are in a state of decline because of the unfamiliarity of the Indian farmers with principal of co-operation.

4. Absence of properly regulated markets on a large scale results in many dishonest practices on the part of the market functionaries, who ultimately deprive him of his legitimate share of the price by many cunning devices.

5. There is also the constant danger of the various qualities of produce being mixed up with one another.

Transport: In certain parts of the country which are not provided with any modern means of communications, pack animals are used to transport the commodities from one place to another within the country. Donkeys are a common means of transport in Nothern India, whilst mules are also occasionally used. Camels are common in Sind. The commonest means of transport in the remoter parts of the country is the two-wheeled cart drawn by a pair of bullocks. In recent years, however, the motor lorry has assumed great importance owing to the economy and speed of transport which it has effected. In parts of the country served by rivers, country crafts and river boats are mainly used for transporting and assembling agricultural produce in India. The railways have in recent years spread almost all over the country but have to face serious competition from motor buses. The use of aeroplanes is gradually spreading but is yet restricted to letters and passengers.

Defects of Transport · 1. The means of transport are generally inadequate and not as efficient as the situation demands.

2. Lack of co-ordination amongst the different means of transport.

3. Limited scope of Government's transport policy.

4. Absence of efficient arrangements for loading and unloading at railway terminals.

Finance: Distribution of the produce from assembling to the terminal markets is mainly financed by wholesale merchants who also function as commission agents and by shippers during periods when exports are taking place. The movement of goods from port towns to the interior is effected by means of credit accounts opened by the commission agents in

favour of the merchants in the interior. The actual provision of funds is made by the village money lenders, indigenous bankers or shroffs, commission agents, landlords, co-operative societies, exporters, trade associations and banks The money lenders are the most important source of marketing finance in India and are to be found in almost every village in the country. There are many complaints against them such as high rates of interest, dishonest dealings with the illiterate farmers etc. The indigenous bankers or shroffs are a more systematic type of money lenders and are composed of Marwaris, Multanis and Sindhi communities The commission agents also provide marketing finance to a very great extent Banks do not as a rule advance direct loans to cultivators but only through merchants or commission agents against the security of pledged stocks or against the purchase and discount of *hundis* or drafts

Defects of Finance :

1. Inadequacy.
2. High cost.
3. The monopoly of the money lender.
4. Absence of branch-banking
5. Absence of any tangible link between the machinery of rural finance and the organised money markets in the country.
6. Immobility of capital and multiplicity of interest rates.

Grading : Until a few years ago the position of grading in India was very unsatisfactory, but under the various legislative measures adopted by Government there has been some improvement although there is much to be desired in the matter. So far as the grading of raw cotton is concerned, the function of grading is performed by the ginning factories. Under the

Grading and Marketing Act or 1937. Government has opened grading stations for certain types of produce e.g. eggs, ghee, tobacco, rice etc , The fact of Government grading is indicated on the packages by printing the word "Agmark" across them. Grading is also undertaken in the village or town market itself particularly for wheat in Northern India,

Storage: The conditions of storage in India are very unsatisfactory as there are no properly organised godowns or warehouses. This is one of the greatest obstacles to the marketing of agricultural produce. In the absence of authorised godowns the finance of marketing is made difficult because the farmers do not possess any warehouse receipt which could be used as collateral security for loans.

Packing: Packing in India was a neglected subject until a few years ago when the Royal commission on Indian Agriculture emphasised the need for the same. Government accordingly passed legislation establishing such packing stations as part of the grading stations mentioned above.

Market Intelligence:

1. *Government Publications:* These are generally issued some considerable time after the events recorded have taken place. They are accordingly of historical and academical interest rather than of practical utility to trade. Besides, the accuracy of these publications is doubtful. The Provincial Government Gazette and the Gazette of the Government of India give records of prices of important commodities while the Department of Commercial Intelligence and Statistics publishes the " Indian Trade Journal " which gives valuaable information pertaining to the internal and external commerce of India. Periodical crop forecasts

are also issued by the Director of the Department.

2 *Press:* Almost all the important daily newspapers have a certain portion devoted exclusively to commercial news and this forms a very valuable source of marketing intelligence to the members of the public. In addition to these newspapers, there are certain periodicals devoted exclusively to trade information such as "Commerce", "Capital", "Indian Finance" etc These periodicals give valuable information and by their well-studied criticism help to direct business opinion and judgement in appropriate direction

3 *Post*· The postal, telegraph and the telephone system afford a valuable service of disseminating trade information They keep the remotest parts of the country in constant touch with organised markets in the port towns and most of the important trade communications are dispatched with the help of postal and other mechanism.

4 *Radio*· In recent years, however, the Government of India has made an attempt to transmit trade information by means of special broadcasts from A I R, New Delhi It has been reported that this innovation has been exhibiting signs of promise in the near future.

5 *Market Reports* In addition to the above, there are also innumerable market reports printed in the different vernaculars and distributed amongst the important markets all over the country. These are probably of the greatest use to Indian traders in general and the Indian farmers in particular.

Suggestions.

Home Marketing Assembling. The existing methods of transport should be greatly improved in order to facilitate the marketing of agricultural produce within the country The Royal Commission on Indian

Agriculture stated that the condition of roads was not quite satisfactory and recommended the construction of better roads. For this purpose liberal grants should be given from provincial revenues for the construction and improvement of village roads.

Storage: The agricultural produce, after it is assembled at market centres, should be provided with proper storage facilities so that the holding capacity of the agriculturists will be considerably increased and he can obtain better prices for his produce. Cold storage facilities should also be provided wherever possible in the case of perishable agricultural produce. The Royal Commission considered the possibility of providing grain elevators at important ports on American lines but expressed the opinion that the advantages of the elevators would not justify the heavy expenses incurred for the purpose.

Regulation of Markets: It is common knowledge that the Indian agriculturist is labouring under great disabilities while selling his produce. His illiteracy and ignorance about the market conditions are exploited by the chain of innumerable middlemen in the market. In order to remove this defect, it is necessary to introduce some form of a strictly regulated market.

Malpractices: The marketing of agricultural produce is associated with a great number of malpractices e.g. mixing of seeds; watering of bales, mixing of seeds with impurities which cannot be easily detected, putting stones at the core of the bales etc. Government should undertake suitable legislation in order to check these dishonest practices not only with a view to safeguarding the interests of buyers but also to maintain the reputation of Indian produce in the world markets.

Marketing Finance: One of the reasons for which the marketing of Indian agricultural produce is considerably hampered is the lack of a suitable agency to provide the cultivators with cheap and adequate loans for the purposes of marketing their produce. There is therefore a great need for the extension of branches of joint stock or co-operative banks to the villages and the linking of our indigenous banking system in the villages with the organised banking system in cities and towns.

Organisation for Sale: One of the reasons why the cultivator gets a poor price for his produce is the lack of organisation amongst the cultivators and the consequent absence of collective bargaining The cultivators should therefore be organised into co-operative sales societies so that they may have a determining voice in the fixation of the final sale price of the produce on the lines of the wheat pools in Canada, and the "egg circles" in some western countries.

Standardisation of weights and measures: There should be a uniformity of weights and measures throughout the country in the place of the present complexities so that the cultivators may not be defrauded by the intermediaries in the marketing process.

Grading and Packing: Indian agricultural produce should be properly graded and suitably packed so that both the producers and consumers might reap the advantages of grading.

Market Research Adequate machinery should be provided in order to examine the existing marketing conditions and also to explore its potentialities by undertaking careful and detailed market

service. The needs of consumers should be thoroughly studied and analysed in order that the market can satisfy them promptly. Accurate statistics relating to the sales of the various commodities should be compiled and properly classified.

Market Information Proper measures should be adopted in order to acquaint the cultivators as well as the operators with the periodical market conditions by the dissemination of market intelligence through the medium of market report etc.

Foreign Marketing: The carriage of our goods to foreign markets should be entrusted to Indian ships, which should be specially built for the purpose of not only reducing the cost of transport but also to retain the present heavy expenditure on shipping within the country itself. Furthermore, trade commissioners should be appointed in important commercial centres of the world to study the potentialities of foreign markets for Indian agricultural produce. Periodical committees of experts should also be sent aboard to study specific markets. The results of their investigations should be embodied in reports which should be distributed amongst the Indian businessmen.

Royal Commission on Indian Agriculture, 1928:

In April 1926 this Commission was appointed in response to public sentiment, to examine the question of the development of Indian agriculture and to make suitable recommendations. This Commission took a very comprehensive survey of the minutest problems of Indian agriculture and made valuable suggestions. The Commission laid particular emphasis upon the necessity of grading, packing, storage etc. The Commission recommended the appointment of a marketing

staff, the publication of their marketing surveys, the regulation of markets and the standardisation of weights and measures in India. The Commission also stressed that Government should pay great attention to the question of making market information available to the people and further that the railway freight should be periodically revised to suit the needs of the producer in consultation with the Departments of Agriculture, and that co-operative marketing societies should be organised

Government action on the Report . The Report of the Royal Commission was issued in 1928 but the Government of India did not take any substantial action upon it until 1935

In order to facilitate the assembling of produce the Government are considering the problem of reorganisation of the railway rates policy. A Transport Advisory Council consisting of Provincial Ministers of Transport has already been established in order to bring about a co-ordinated development of all forms of transport in India. Provincial Road Boards and Transport Authorities have been established in Bombay, Madras, the Punjab and the U. P. Government have agreed to give grants to each Province for road construction A Standing Committee for Roads has also been established. The import and excise duties on motor spirit have already been raised considerably in order to provide finance for road construction. Experiments are also being conducted for providing cold storage waggons on railways. The Central and Provincial Governments have been equipped with an expert marketing-staff. The Central Marketing Staff consists of the Chief

Marketing Adviser, three Senior Marketing Officers, three Marketing Officers, one Supervising Officer for grading and packing stations and 12 Assistant Marketing Officers, whilst the Provincial Marketing Staff consists of the Chief Marketing Officer and Assistant Marketing Officers. Provincial Governments have opened Departments of Agriculture and Rural Development Departments which are proving of great assistance in the improvement of marketing conditions. Agricultural research is also being carried on in Poona Agricultural College and the Research Institute at Poosa. The Marketing Staff has undertaken many market surveys and has already published its reports of which reference may be made to those on wheat, sugar, oilseeds, and rice.

Regulated markets have already been brought into existence in Bombay and the C. P. especially Amraoti. In Northern India also many regulated markets have been established. In order to tackle the problem of market finance, a special Agricultural Credit Department of the Reserve Bank of India has already started its working. The results of its investigations are embodied in booklets on the "Village Banks" and "Co-operative Credit." The Government have given recognition to the co-operative organisation for sale by passing the Co-operative Credit Societies Act and establishing a special Co-operative Credit Department and also have given special credit facilities through the Reserve Bank of India to the co-operative societies. In order to safeguard the Indian consumer and to increase the income of the Indian agriculturists the Government of India passed the Grading Act of 1935 and also the Agricultural Produce Grading and Marketing Act of 1937. Government have also opened grading centres for fruits, vege-

3. Harold Whitehead: *The Administration of Marketing and Selling.*
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5. do. *Principles of Business.*
6. R. Simmat *Scientific Distribution.*
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1. Report of the Royal Commission on Indian Agriculture.
2. Reports of the Marketing Adviser to the Government of India particularly those on wheat and oilseeds
3. D. R. Gadgil and V. R. Gadgil: *Survey of the Marketing of Fruit in Poona.* (Gokhale Institute of Politics and Economics)
4. G B Jathar and S. G. Beri· *Indian Economics—Vol. I Chapters VIII and XI.*
5. S. A. Palekar: *Trade of India-Chapters III, V and X*
6. B. B. Mukherjee: *Agricultural Marketing in India*
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8. B N. Bhargava. *Agricultural Marketing.*
9. A. I. Qureshi: *Agricultural Credit.*
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11. M. L. Dantwala: *Marketing of Raw Cotton in India.*

CHAPTER III

FINANCE

AS already observed in the last chapter, finance constitutes a very important branch of the distributive side of economic activity The need for finance arises from the fact that a considerable time elapses before the value of the goods is realised by the manufacturer who must carry on his production in this interval with the aid of borrowed capital. In modern economic society, the processes of production and distribution have become more and more complicated and the modern industrial and commercial enterprises have become essentially capitalistic. That is to say the methods of production and distribution have become so "roundabout" that they require a greater amount of capital than before. The total amount of capital required is so huge that a single manufacturer, wholesaler or retailer is not in a position to satisfy all his requirements by himself. In primitive society there was direct exchange of goods and the capital requirements were also small

Decentralisation of production and marketing has also led to the need for the specialised agencies of finance. e. g. there are so many intermediaries in the process of marketing that a special provision for financing each one of them should be made.

In deciding the extent of capital requirements, due attention must be paid to the following factors.

1. *The nature of the product* should influence the amount of finance required e.g. if the product is of a permanent and durable character, large amount of capital will be required and *vice-versa*.

2. *The nature of production*: If a commodity takes a very long time to be produced then obviously they will require a large amount of capital On the other hand, if a commodity can be produced in a short time, the manufacturer can realise its value earlier than otherwise.

3. *The extent of the time lag between production and consumption*. If commodities are consumed a long time after they are produced they will require a greater amount of finance, to pay for the various marketing services expended upon them.

4. *The extent of demand*: If a commodity is demanded on a very large scale then the economies of large scale production and distribution can be realised with consequent reducing effect upon the amount of finance required.

5. *The level of incomes and the degree of savings* determines the amount of finance required by commercial enterprise because it is the consumers who ultimately finance all business. One part of the population finances by means of its savings while the other part finances it by paying for the goods whose price also includes the cost of finance.

6. *The nature of supply* also influnces the amount of capital required because if a commodity is supplied seasonally, bulk purchasing and storing will have to be undertaken and this will mean locking up of capital which must be extricated by means of borrowings.

7. *The distance* between the producers and consumers exercises an important influence because longer distance implies more time and expense in distribution. The cost of marketing and that of finance are increased.

8. *The rate of interest and the rate of profit.*

Types of Finance

1. *Long-trerm Finance* This is that part of the capital required by a commercial enterprise to finance its block or fixed assets such as land, buildings, machinery and other appliances of a permanent nature This is also called block, fixed or permanent capital. In this sense it is required by enterprises which are newly floated whereas established industries also require it for the purpose of extending their field of operations and for replacements and for taking advantage of new processes and discoveries. It is called long priod or long term finance because it is invested in permanent units of production such as plant and machinery and cannot be easily withdrawn. This represents "the business enterprise" and may be regarded as the costs incurred in anticipation of the final goods and services which bring in the sales proceeds. The long period finance is required for ten or more years.

2. *Short-Term Finance*. This is required for a short period for the purchase and working of raw materials into finished products, for financing outstanding in respect of goods supplied, for stores, for expenses incidental to the marketing of products, and for providing the necessary funds for meeting the day-to-day expenses. It may be composed partly of long period finance and partly of short-period finance, e.g. it it obvious that the stock of raw materials and manufactured and semi-manufactured goods never falls below a certain minimum and the finance required to hold this stock may

be regarded as long period finance and the remainder may be classified as short-period finance. The need for short period finance arises because consumption is more discontinuous than production and stocks have to be accumulated in anticipation of demand The short period finance is generally required for one year or more but not exceeding ten years.

Long period finance is mainly required for the fixed expansion of business already in existence or the establishment of a new business whereas short period finance is required for the "working" of the business as such i.e. to maintain its normal course when something appears to interfere with it e.g. to encourage sales during a trade depression short period credit is granted to customers.

This distinction between long period and short period finance, however, is not strictly or unconditionally accepted by either financiers or writers on financial subjects. There is a considerable divergence of opinion both in regard to the period of employment as well as the form of investment. It may also be observed that a long period finance for one industry may be a short period finance for another. Similarly, it is a common experience of practical business life that there are constant exchanges between these two forms of finance, that is, a part of long period finance is converted into short period finance and *vice-versa* either as a matter of business expediency or a natural consequence of business operations. But the problem of the fundamental distinction between these two forms of finance must in the ultimate analysis be approached from three standpoints: 1. the degree of permanency of its employment, 2. the purpose of its employment, and 3. the form in which it is maintained.

3. *Medium Term Finance;* This occupies an intermediate position between long term and short term types of finance in regard to its period of utilisation. It is required for financing hire-purchase or instalment sales, advances against deferred payment etc.

4. *Circulating Finance* This is generally identified with working capital. But a distinction may be drawn between the two so that, that part of the working capital which is utilised in a current manner for the normal operations of the business may be regarded as circulating capital.

Sources of Long Term Finance

1. *Public subscription to shares* The initial capital which is of a permanent nature required by a new enterprise, is obtained by floating shares of various kinds such as ordinary, preference with different degrees of priority, cumulative and non-cumulative participating, deferred and so on. These shares carry different rights and privileges both as regards payment of dividend and repayment of capital, The shareholders cannot withdraw their capital during the life of the company but can transfer its ownership to others. In India, public subscription has not assumed as great an importance in long term finance as on the Continent or the U S A., because there is a lack of a wide basis of investment owing to a great many cases such as the absence of an organised capital market and institutions such as Issue Houses and Investment Trusts.

2. *Bonds and Debentures*. After the initial long period finance is obtained by the above method, subsequent long period financial requirements are fulfilled by business concerns through the medium of bonds and debentures. The difference between a shareholder and a debenture holder is that while the former is the owner

of the company, the latter is its creditor. Like shares, bonds and debentures are also classified into various categories such as mortgage debentures, registered, bearer, etc. In India there is a conspicuous lack of sufficient debentures and our industries, therefore, are greatly handicapped as regards long period finance.

3. *Managing Agents*: This is a source of finance pecular to Indian industries. In the western countries his role is taken by the promoters who may be either an individual or institutions such as investment trusts. The Indian Company Act has now placed many restrictions on the activities of managing agents and this source is gradually losing its old significance,

4. *Public Deposits:* This is a system by which public savings are directly accepted by industries instead of through the intervention of banking institutions. It is common in Lancashire from where it is said to have been adopted by Bombay and Ahmedabad textile mills. The deposits may be for long periods or short ones. In recent years this sources of finance is declining in importance.

5. *Government Loans:* In some countries the Government takes upon itself the long period finance of industries by giving them cheap and adequate loans e, g. Germany and Japan. In India also the principle of state aid is being gradually accepted e.g. the Belapur Sugar Factory was financed by Bombay Government.

6. *Financial Institutions*: e. g. investment trusts, issue houses, and others common especially in the U.S.A.

7. *"Amortisation" and "Ploughing Back":* Some companies adopt the method of either setting aside a part of their profits for purposes of replacements or actually reinvest it in permanent assets. This is known as "Ploughing Back" and is resorted to generally by

established industries for extension and improvements.

Source of Short Term Finance .

1. *Managing Agents .*

2. *Commercial Banks:* by means of loans, discounts, acceptances, overdrafts etc. The method is not yet common in India owing to many defficulties which are examined in a later section below.

3. *Commercial Credit Houses·* against mortgage of property or promissory notes. In India this is represented by indigenous bankers and money-lenders.

4. *Public Deposits·*

5. *Private Deposits:* from the savings of friends and relatives.

6. *Government Loan:*

Considerations affecting borrowing practices:

The financing operation may be viewed either from the borrower's or the lender's standpoint. The psychology of the borrower and the lender influences the financial structure to a large extent and we shall now see what the factors, which the borrower and the lender take into account in normal course, are.

When a businessman borrows a loan, he borrows it mainly to overcome his financial difficulty He is very anxious to ensure that a loan is not exchanged for interference with his business by the lender. Furthermore, he is careful to retain with himself the control of the use of the borrowed capital. Then again, the borrower wants to reduce the cost of the borrowed capital. He can achieve this object either by regulating the rate of interest on the magnitude of profits directly arising from its use. Now as the borrower has no direct control over tho rate of interest, he is left w th a rise in profits as the only instrument of reducing the cost of

production. Thus a borrower is interested in retaining with himself as large a production of the profits arising from borrowed capital. The cost of finance may also be reduced by reducing the financial requirements to the lowest level. Thus the borrower is interested in borrowing an amount just enough to satisfy his needs. Finally, the borrower is anxious to return the loan at the earliest possible moment in order to minimise the burden of financial cost.

The lender on the other hand is interested primarily in reducing the risk involved in the financial transaction. This he can do either by counter-balancing the amount of risk with an adequately high rate of interest or by insisting on an adequate security for the advance. Some lenders also wish to acquire an appreciable degree of administrative control in the debtor's business enterprise with a view to safeguarding their financial interests. Lenders are also solicitous to call back their loan at the earliest possible moment. Furthermore, the lender tries his utmost to encroach upon the debtor's profits to as large an extent as possible.

There is thus a virtual psychological tug-of-war between the borrowers on the one hand and the lenders on the other. The financial transactions takes place at that point where both borrowers' and lenders' interests are at a maximum level.

Sources of Finance:

1. *Personal Savings:* A businessman might finance his enterprise by his own savings. But this method can satisfy only a small demand for capital because one men's saving cannot amount to very much. The great advantage of this source of finance is the absence of any obligation to pay interest because here the borrower and the lender are one and the same

person. There is, therefore, no pulling in different directions for the share of profits while the risk is also minimised to a very great extent.

2. *Savings of friends and relations* A businessman might utilise his friends' or relatives' savings to finance his business. This method, however, gives rise to many complications because the transaction in many cases is not based on strict business considerations.

3 *Partnership* This source of finance is resorted to when a limited number of persons combine their resources for the purposes of a business venture. Administrative control and profits are divided amongst the partners according to some agreed terms. A great drawback of this source of finance is the unlimited nature of the financial liability of each partner although the relatively less government interference in partnership concerns outweighs the disadvantage and makes many businessmen prefer this method of finance to others. Partnerships, however prove to be failures in the long run owing to the eventual atmosphere of suspicion and distrust among the partners.

4. *Joint Stock Company* . When the amount of finance required is too great to be provided by one man or when the financial risk involved is too heavy to be borne by a single businessman, this source of finance proves to be very useful. The advent of the joint stock method of finance with its principle of limited liability has been one of the most outstanding innovations in the economic and financial structure of society. The great advantage of this source of finance is the minimisation and transferability of risk. No shareholder can be called upon to pay anything more than the face value of his shares whilst the shareholder can pass on the financial liability to any other person by selling his

shares. As against this, advantage must be considered the constant government interference with the administration and the possibility of exploitation of the shareholders by the directors who are entrusted with the actual management of the business concern, Government interference from this standpoint may be regarded as a blessing in disguise

5. *Private Company* · This source occupies a position intermediate between the partnership and the joint stock company method The great advantage of this source is the absence of much external intereference and the retention of considerable initiative with the directors although it suffers from its inability to provide additional finance owing to the limitation, placed upon public subscription and the transferability of shares.

6. *Co-operative Credit Society :* This source of finance is particularly useful for financing small business ventures for the benefit of many persons on a geographical, communal or occupational basis. It is particularly useful for those classes of society with comparatively low levels of incomes. Apart from its sociological, significance of inculating a sense of mutuality amongst the people, it has the great advantage of minimising financial risk.

7. *Banks :* These may be either commercial banks or industrial and land-mortgage banks. The Commercial banks do not generally advance long-term loans. The businessman is rather reluctant to approach this source because of the necessity to disclose his financial position. The considerable high rate of interest, heavy amount of security asked by the banks, banks' interference with his business accompanying the loan and the rigidity which characterises the recovery of loans by banks. Banks as a source of finance have assumed

great importance in recent years in Germany

8. *State* This may be regarded as an inexhaustible source of finance and has been mainly responsible for the industrial and commercial prosperity of countries like the U.S A.and Germany. There are various forms in which Government financial assistance may be given to business enterprise e,g government might advance direct loans, it may guarantee dividends and the capital of industrial undertakings, or it may subscribe directly to the share capital of new industries.

The Financial Plan Before a business decides upon providing itself with the necessary finance it must prepare what is known as "financial or capitalisation plan". Thus the success of new business depends in a large measure upon the accuracy and care with which this plan is drawn up, The financial plan constitutes the original scheme for raising capital which is intended to be locked in the new business. That is to say, it must estimate as precisely as possible the total financial requirements of the new venture. It must make provision for the fixed capital of the concern, the types of shares that must be issued, loans and advances that must be taken, it must also give an estimate of the working capital and must make sufficient provision for preliminary expenses, promoter's profits and unforeseen financial contingencies.

Forms of Capitalisation:

After the financial plan is drawn up the next task is to set about the actual business of obtaining finance, for the prospective business enterprise. If the financial requirements are proposed to be satisfied by personal savings or savings of friends or by loans from banks or government, the problem of dividing the capital structure of the company does not present a difficult

problem. On the other hand when capital is to be obtained by public subsciption an elaborate scheme of dividing the total capital into its various categories must be carefully drawn up in its minutest details Generally, the initial capital obtained by public subscription is divided into the following classes: 1. Ordinary Shares. 2. Preference Shares. 3. Cumulative Preference Shares. 4 Non-cumulative Preference Shares. 5. Cumulative Participating Preference Shares. 6. Non-cumulative Participating Preference Shares. 7, Redeemable Preference Shares. 8. Irredeemable Preference Shares and 9. Deferred Shares.

1. *Ordinary Shares:* This is allotted to anyone who makes the necessary application on the prescribed form to the Board of Directors of the company. It carries ordinary rights of voting and share in the residual profits if any, of the company, in the form of an annual dividend. It does not carry any special rights or privileges except that the shareholder constitutes the joint owner of the concern. The ordinary share is again divided into (*a*) Undivided Ordinary (*b*) Preferred Ordinary and (*c*) Deferred Ordinary The last two varieties come into existence by what is known as "splitting" or "doubling" operation, e g. an ordinary share of Rs. 100/- may be split up into a preferred ordinary share of Rs. 50/- and a deferred ordinary share of Rs. 50/-, This ingenious device of splitting is adopted to substitute a combined element of security and speculation in the place of the unexciting sobriety of the ordinary share,

2. *Preference Shares:* The holders of these shares receive annual dividend at fixed rates in priority to the ordinary shareholders, The preference shareholders are not entitled to anything more than this in the

distribution of the company's profits.

3. *Cumulative Preference Shares* These shares not only carry the right of priority in regard to a fixed share in the annual profits but also a right to accumulate that share from year to year when the financial position of the company does not permit the payment of the same and to receive payment of all the arrears at a later period when such financial position is more favourable.

4. *Non-Cumulative Preference Shares* The right of accumulating arrears of dividend does not attach to this class of shares and these shareholders receive dividends only if the annual profits of the company permit them.

5. *Cumulative Participating Preference Shares* In addition to the right of accumulating arrears of dividend, these shareholders are also entitled to a share in the residual profits of the concern, after the ordinary shareholders have been paid.

6 *Non-Cumulative Participating Preference Shares:* This class of shareholders are not entitled to accumulate the arrears of dividends although they have a right to share in the residual profits of the company.

7. *Redeemable Preference Shares:* This class of preference shares is to be repaid by the company at the end of a specified period A special Redemption Fund is built up by the company out of its annual profits during the currency of the shares.

8. *Irredeemable Preference Shares:* These shares are in the nature of fixed capital locked up in the assets of the company and are never repaid unless the company is wound up.

9. *Deferred Shares:* These are also known as "Founders" or "Management" shares and are given to the

promoters or to the directors of the company when it is started. The rights of the shareholders rank last and they receive their dividends after every one else is paid. There is thus a certain amount of uncertainty regarding the rate of annual dividend on the deferred shares. It sometimes happens that the deferred shareholders get a higher rate of dividend than the ordinary shareholders. This element of uncertainty leads to speculation in the deferred shares on the stock exchanges Such speculation is regarded by many as undesirable to the working of a company because it leads to constant fluctuation in the price of shares which affect adversely the credit and administration of the company.

Debentures: This is another form of obtaining long term finance for a business concern. A debenture may be regarded as an acknowledgement by a company of a loan which it has taken and containing a promise to repay the same at a specified time, if the loan is redeemable. A debenture must be distinguished from a share. Whilst a debenture creates a loan a share creates ownership A denenture-holder is thus a creditor of the company. The following types of debentures are generally found in practical business:

1. *Ordinary debentures:* These debentures give no charge of any kind on the assets of the company for repayment and for all practical purpose are mere promissory notes, whose holders are unsecured creditors.
2 *Mortgage Debentures* · The holders of these debentures are protected by a claim on the whole or part of the assets of the company. The document which conveys the mortgage is known as "Trust Deed".
3. *Debenture Stock :* This debenture is payable at a fixed date in the event of a specified contingency such

as the winding up of the company. The holders of this type of debentures receive a certificate known as "Debenture Stock Certificate". Whilst the debentures must be transferred in whole, debenture stock can be transferred in whole or in part.

4 *Registered Debentures*. These debentures are recorded in the books of the company and are payable only to those whose names are mentioned against them as the holders. These can be transferred only by a properly executed transfer deed.

5. *Bearer Debentures* The names of the holders of these debenture are not registered in the books of the company and they are payable to those who present them. They can be transferred by mere delivery by one person to another.

6 *Redeemable Debentures* · Like redeemable preference shares, these are to be repaid by the company either after a specified number of years or after giving the prescribed notice of redemption to the holders.

7. *Irredeemable Debentures:* These are not paid off so long as the company is in existence.

Bonds:

It is very difficult to give a precise definition of this form of obtaining finance. It may however be stated that a bond is similar to a debenture in many respects. The following types of bonds are generally in the financial structure of a business house.

1. *Contingent Income Bonds*. These types of bonds are issued for the purpose of adjusting capital and the holders get interest only when the company makes a specified amount of profits. These are generally issued after a company has been started.

2. *Participating Bonds:* The holders of these bonds in addition to a fixed rate of interest are entitled

to a share in the profits of the company.

3. *Convertible Bonds:* These bonds are convertible either into preference shares, ordinary shares or stock at the option of the holder.

4. *Guarantee Bonds:* This type of bonds has some type of guarantee in addition to the claim to fixed interest. The guarantee may be either by government or by another company or similar institution.

There are also other classes of bonds such as collateral trust bonds, refunding bonds, prior lien bonds etc The redeemable, irredeemable, registered and bearer varieties are also to be found in the case of bonds.

Lack of Debentures in India·

Causes: In India debentures do not constitute a popular form of obtaining long term finance. This may be attributed mainly to the absence of a wide-spread and well-organised investment market in the country. The industries mostly depend upon the managing agents and public deposits to provide them with long-term finance. The attitude of the Indian investor is also responsible for the absence of debentures in India. He is very conservative in his investing habit probably owing to the failure of many industries in India. This leads him to lock up his savings in comparatively safe investment such as Government securities cash certificates, landed property etc. The Indian investor is very anxious to increase the capital value of his investment and as such debentures do not have any attraction for him. It is of course true that this attitude could considerably be changed in a desirable direction by proper advice and sound guidance by financial instructions such as investment trusts· But the unfortunate absence of such institutions in India results in aggravating the deplorable situation. The mofussil

investor has no means of prompt advice of profitable investment, because the stock exchanges are confined only to the important port towns.

It has also been pointed out that business concerns like insurance companies and banks which have huge funds for investment do not take any appreciable interest in debentures. This is attributed by some to insecurity engendered by the uncertainty of government's fiscal policy and by others to the absence of debentures of really first class concerns. It has been stated that Government's policy of discriminating protection is not quite adequate nor assuring for a profitable and successful career for industries. The heavy stamp duty on debentures and on transfer of debentures is also considered by some to be an impediment in the way of industrial debentures becoming popular in India. Some writers have therefore advocated a reduction of this stamp duty whilst others, feel that this stamp duty has nothing to do with the popularity of debentures as the cost of initial duty falls on the company and not on the debenture holders. The higher cost of securing capital by means of debentures than by means of direct deposits or bank loans is also stated to be an obstacle in the way of debentures in India.

The attention of the Central Banking Enquiry Committee, which examined the entire question in 1929, was drawn to a practice whereby an entire debenture loan is taken up by limited group of financiers working for wealthy clients such as rulers of Indian states and others who do not try to place the debentures on market and thus prevent a debenture market coming into existence in India. The small size of debentures and their lack of variety are further factors

which should be taken into account in explaining the lack of debentures in India.

There is a general prejudice amongst the business houses against debentures and they are unwilling to issue debentures because the investors in India misconstrue the issue of debentures as an indication of the financial instability or the weakness of the concern. Finally, the absence of issue houses to underwrite debentures in India is another handicap which makes it difficult for the successful floatation of debentures. In the absence of such institutions, the industrial concerns do not have sufficient confidence nor assurance to float debentures.

Investment Trusts:

This is another important source of obtaining finance. These institutions act as intermediaries between the investors on the one hand and the industries requiring finance on the other. They collect the savings of the public by selling stock, bonds, etc. and invest the same very carefully in various business enterprises. The investments are well spread out so as to safeguard the interests of the members, so that investment trusts may be regarded as partly a banking, partly an investing and partly an insurance business. Investment trusts may be classified into the following main categories :— 1. Fixed Trusts. 2. Flexible or Discretionary Trusts and 3. Limited management Trusts.

Advantages:

1. They render valuable service to the average investor who is too ignorant of the actual marketing conditions to be able to undertake successfully direct investment in industries.

2. Ensure unspeculative, profitable and sound investment policy particularly to those members of

society who want to content themselves with a fixed and safe return on their capital.

3. The importance of investment trusts is particularly great when they act as underwriters guaranteeing the issue of new capital.

4. By bringing about a diversification of investment, they not only minimise financial risk but they also help to encourage a great deal the investment habit amongst the members of society

Investment Trusts in India:

Importance · Investment trusts would prove to be a boon to the inexperienced and small investors in India by providing them with valuable information about business ventures and prospects of investment. Some people feel that the establishment of investment trusts in this country will have a stabilising influence on the stock exchange where at present the quotations of shares have no logical connection with their intrinsic value. It is stated that investment trusts would not only attract considerable foreign capital but would also link up the business *entrepreuner* on the one hand and the primary investor on the other. In general it is felt that investment trusts would enrich the Indian money market as a whole and remove many of its present defects.

Difficulties:

Although investment trusts would be of immense importance in this country, there are many difficulties in establishing them. It has been stated that the primary aim of investment trusts is financial and not industrial, that is to say, they are more useful in countries where industries exist on a large scale and would not prove to be of much practical use in India with her present industrial backwardness It is also pointed out that the shyness of

Indian capital combined with the absence of expert and trained men, presents the greatest difficulty to the establishment of investment trusts in India. Both these arguments appear to run in a vicious circle and the difficulties may be regarded more apparent than real and may be expected to be overcome by the establishment of investment trusts themselves. Investment trusts are operated on the joint stock principle and some people feel that the unfamiliarity of the Indian investor may militate against their successful operation. Government's borrowing policy is also regarded as an insurmountable obstacle in the way of the establishment of investment trusts in India. It has been felt by many that the financial requirements of Government offer an unfair competition to the industries by attracting themselves a major part of the available amount of public savings by offering greater security and better returns. Thus, Government's needs are satisfied at the cost of the financial needs of the Indian Industries. The managing agents are probably the most vehement opponents of the investment trusts naturally because the establishment of such institutions with their strict watchfulness over industrial activity would be a source of great annoyance and embarassment of them.

Mr. Macdonold of the Imperial Bank in his oral evidence before the Central Banking Enquiry Committee expressed the view that the establishment of investment trusts will be difficult in India because they would have to operate in world markets and such a diverson of Indian capital outside the country was considered by many to be undesirable particularly when the credit needs of the country itself were unsatisfied.

The Foreign Experts to the Central Banking

Enquiry Committee felt that investment trusts which depend upon cheap finance for their success would be difficult to be established in India where the interest rates are not low enough, nor likely to be so for some time, to warrant such establishment.

Undercapitalisation:

It is very essential that every businessman must estimate as accurately as possible his financial requirements. Otherwise, he is likely to be confronted with the problem of undercapitalisation or overcapitalisation in course of time A firm is said to be undercapitalised when the total finance which is available to it for its use is not sufficient to meet all its needs. Undercapitalisation reduces the elasticity of a business to meet new conditions; it induces competition because the rate of profit is artificially high and ultimately leads to the closing down of the business.

Undercapitalisation is an unfortunate feature of the commercial and industrial enterprises in India. This may be traced back to the sole dependence on the managing agents whose personal savings were thoroughly inadequate to supply the total financial needs of a new concern. The negligence of the managing agents in preparing an accurate financial plan is also responsible to a great extent. Sometimes, they have deliberately underestimated their financial needs and contented themselves merely with obtaining the fixed capital for the concern This has probably been one of the main causes of the high mortality rate of industrial undertakings in India.

Overcapitalisation:

This occurs when business concerns operate with a redundance of capital. Overcapitalisation may take place when business houses revalue their assets in boom

periods and thus obtain huge profits or when the financial structure of a business is reorganised. Sometimes, when the form of a business venture undergoes a change and there is a redistribution or consolidation of assets, this may lead to overcapitalisation. For example, when a partnership is converted into a joint stock company, the assets given to the erstwhile partners as remuneration may be overvalued. Similarly, when a combination of business takes place involving consolidation of capitals, the combined capital may prove to be in excess of the actual requirements of the new concern.

The economic consequences of overcapitalisation are far reaching in their significance both from the standpoints of the company and society Overcapitalisation has an adverse effect upon the financial reputation of the company as it decreases the value of its shares. Very often overcapitalisation tempts the directors of the company to declare unearned dividends. As a result of the fall in the prices of their holdings, the shareholders are also involved into a considerable financial loss.

CONDITIONS OF FINANCE IN INDIA :

We might study the conditions of finance in India under the following heads

1. Finance of Home Trade
2. Finance of Foreign Trade.
3. Finance of Industries.
4. Finance of Companies.

1. Finance of Home Trade ·

Assembling and distribution are two main places in the process of internal trade and it will be convenient to study internal trade finance under these two separate heads.

A. Finances of Assembling

a. *Baniya:* In practically all parts of the country the village baniya is the mainstay of the cultivator when the latter is in need of money for assembling his produce. Advance for the growers' current requirement are made mostly on personal security or, as in Sind, by verbally pledging a part or whole of the future crop, mortgages however generally form the basis of long-term loans and the rates of interest are adapted to the credit of the borrower and degree of his necessity as well as on the nature of the security offered. In the case of mortgage loans or advances, the transactions are mainly in cash and the rate of interest varies from 6 to 24%. Loans are also raised on the security of ornaments or other valuables and also sometimes from merchants in the local markets. These are required to be paid just after the harvest The repayments are tenaciously insisted upon by creditors just after harvest and this often forces the liquidation of debts by repayment in kind. These practices form one of the obstacles in the way of orderly marketing and in securing to the grower an adequate return for his produce.

b. *Merchants and Commission Agents or Arhatiyas:* Village merchants are largely financed by Arhatiyas or commission agents in the same village or nearby large markets. The arhatiyas generally advance upto 75% of the value of the produce deposited with them at interest varying from 5 to 10%. The arhatiya who also acts as a broker between the seller and the wholesale buyer is rarely paid immediately by the buyer who is ordinarily allowed 15 days of grace.

c. *Shroffs:* The commission agents in their turn are also financed by shroffs or indigenous bankers. Loans may be taken on the basis of promissory notes or mudatti

hundis at varying rate of interest depending upon individual circumstances and money market conditions. The normal range of interest is from 4 to 12 % per annum. These shroffs occupy a very important place in the financing of the internal trade of India.

d. *Banks:* Banks do not as a rule make any advance to cultivators; but loans to merchants or commission agents are generally given on the security of the stocks pledged. The stocks must be insured and stored in places approved by the banks and are subject to periodical inspection by the bank authorities. In large centres a special godown keeper is employed In addition to advances against pledged stocks, the banks held in financing the internal trade of India by remitting the necessary funds to assist purchases and by discounting demand drafts and hundis. The rate of interest varies according to the money market conditions and the status of the borrower. While the old aversion of certain arhatiyas to patronise the banks is gradually disappearing, many instances are encountered of merchants who finance their stocks of produce entirely from private sources and who deprecate the idea of obtaining advances from a bank or any public institution as likely to lower their financial respectability in the eyes of their fellow-traders.

e. *Trade Associations:* In a few of the larger inland markets, the assembling of produce is also financed by the respective trade associations out of the surplus funds lying idle with them.

f. *Co-operative Societies:* With very few exceptions indeed, the co-operative movement in India has developed on the lines of credit organisations. These societies ordinarily do not take any part in the marketing of their members' produce. Their chief function is

to make advances mainly for agricultural expenses on the personal security of at least three members jointly and severally, These loans are generally repayable by instalments and the cultivator gets the benefit of a low rate of interest

B. Finance of Wholesale Distribution.

The distribution of produce from the assembling to the terminal markets is mainly financed by wholesale merchants who also function as commission agents and by shippers during periods when exports are taking place The actual provision of funds is effected through shroffs or money-lenders and the modern joint stock banks which in recent years have greatly extended their activities.

a. *Arhatiyas* The arhatiyas are of two kinds. Pakka Arhatiyas and the Kacha Arhatiyas. The large firms of arhatiyas finance the internal trade to a very great extent. The arhatiyas act as purchasing agents for their clients in distant places and usually receive ¼ of the value of goods as earnest money. Sometimes, they consign goods to distant places on their own account also. Kachha arhatiyas also finance the distribution in villages.

b. *Shroffs:* These indigenous banking houses play a very important part in the financing of the internal trade especially in agricultural produce Most of the shroffs belong to the Marwari, Multani, or Sindhi communities and are established in large numbers in practically all the chief markets of the country, One of the main activities of the shroffs is to discount hundis, demand drafts, or bills and advance money on promissory notes. The hundi system in the financing of internal trade is more or less peculiar to India. There are two kinds of hundis: *mudatti* hundi and

darshani hundi, The former is a long term document and is generally drawn for a fixed period while the latter is the equivalent of a sight draft usually payable on presentation.

Sometimes, in order to save stamp duty, finance is raised on promissory notes. This is only done when large amounts are involved and is preferred by merchants as it receives least publicity owing to its non negotiability.

c. *Banks* In addition to the provision of credit against the security of pledged stock the banks also buy and discount hundis or drafts, remit money by telegraphic transfer from one centre to another and in general provide all the accommodations necessary for the conduct of internal trade. Banks do not however generally advance loans against mudatti hundis or currency drafts. Approved firms are however allowed to draw upon the banks upto certain limit on the basis of currency drafts or promissory notes. The activities of the banks are mostly confined to the trade in larger cities and towns.

d. *Exporters* Some international firms dealing in agricultural produce provide themselves with funds in India by selling sterling bills of exchange usually drawn at three months' sight or telegraphic transfers through the Imperial Bank or any other foreign exchange bank at the various port headquarters of the firms in question.

e. *Remittances* · The adequate provision of funds and cheap transfers from the centres of consumption to the supplying markets are other factors of importance in the finance of distribution. Remittances may be made by means of darshani hundis or bank drafts, telegraphic transfers, or by actually remitting cash under registered

or insured cover. The latter practice is followed only where small amounts are involved and where ordinary banking facilities do not exist. It is usually customary for consignors to send railway receipt for collection through a bank if there happens to be a branch in the consignee's market. The receipt is accompanied by *darshani* hundis drawn on the consignee and it is only delivered to the latter when the hundi has been duly honoured by him.

2 **Finance of Foreign Trade** A major part of the finance of foreign trade is provided by non-Indian banks which occupy an almost monopolistic position in this sphere. Indian banks as a general rule do not participate in the finance of India's foreign trade for a number of reasons such as the enormous amount of financial risk involved in the business, absence of well-trained men for the purpose, severe competition of the non-Indian exchange banks with comparatively huge financial resources, the relatively small margin of profit and the difficulties of opening foreign branches.

It has been represented that the foreign exchange banks use their monopoly of this business to the detriment of Indian banks e g. it has been stated that these foreign banks pursue a policy of racial discrimination, that they give poor references to Indian merchants, that they charge unnecessarily high discount rates to Indians, that they do not give long credit to Indian merchants, that they compel the Indian merchants to insure the goods with foreign companies and finally that they do not show any laxity in the event of the Indian importer's inability to meet his bill.

Many suggestions have been made in order to reform the machinery of Indian foreign trade finance. Some have suggested the imposition of some type of restric-

tion on the activities of the foreign banks, The establishment of a separate Indian exchange bank is also suggested as a plausible solution of the problem. A middle way between these two suggestions is put forth in the form of the creation of "joint" banks under the joint control of Indian and foreign banks. A proposal has also been made to induce the Imperial Bank to take an active share in the finance of India's foreign trade.

3. Finance of Industries.

The following agencies provide finance to industries in India.

a. *Long term finance*. a. Managing Agents. b. Public Subscription, c, Public Deposits. d State.

b. *Short term finance*. a. Managing Agents. b. Public Deposits. c. Private deposits d Indigenous bankers. e. Commercial banks. f. State

Managing Agents: It would be impossible to enumerate in details the predominant part played by managing agents in industrial promotions and the invaluable financial assistance which they have rendered to Indian industries from their time of inception. The intimate connection of the managing agents with industrial finance in India is to be found in the state of banking development and investment market within the country. At the time when industries were started, Indian investors were unwilling to invest in those undertakings. This unwillingness and shyness of Indian capital combined with the unwillingness of commercial banks practically threw the industries at the mercy of the managing agents for the provision of finance.

The finance provided by many managing agents has taken various forms. Besides contributing to the capital of the concern and suffering the initial losses, they have also rendered financial assistance in the form of loans

and deposits from time to time. The managing agents have placed their savings at the disposal of industries either for assisting production or distribution. Very often the association of particular managing agents with certain industries have helped them to obtain finance from the public more readily than they could do otherwise. The system of managing agency finance has been very deep-rooted There has however been a heated controversy on the utility of managing agents and this controversy has been settled by the New Indian Companies' Act by which their activities have been considerably restricted. It has been stated that the domination of the managing agents has not conduced to the welfare of the Indian industries because they have manipulated the finance for their own benefit. There have been many instances in which the managing agents have misappropriated the funds of the company and this has given rise to a general outcry against the managing agency system. Many of the managing agents have indulged in wreckless speculation in shares at the expense of the company under their management. This combined with the hopeless inadequacy of their savings has made the managing agents a very unsatisfactory source of financing industries.

Public Subscription ·

This has been the most common method of raising capital for a company. But it has not become as widespread as demanded by the extent of the country and the magnitude of the industrialisation. There is a deplorable lack of a wide basis of investment as a result of the absence of a properly organise capital market within the country The ordinary shares of large denomination are very common whilst the preference share is also favoured, the outstanding example

of this being the Tata Iron & Steel Co , Ltd., and the Jute concerns of Calcutta. Debentures, as already noted, are uncommon except in the case of some of the tea gardens and other sound concerns managed by foreigners. Debentures are however becoming popular amongst the sugar companies as a source of raising additional finance.

Public Deposits.

There are a very important source of industrial finance particularly for the cotton textile mills of Bombay and Ahmedabad. By this system the industries eliminate the necessity of approaching the banker for a loan and themselves assume the function of the banker. This system of public deposits is said to be copied from Lancashire cotton mills.

The great advantage of this system of public deposits is that it enables a company to borrow at a cheap rate without increasing its capital or without creating a charge on its assets. So far as the investors are concerned, this system provides them with a convenient and profitable outlet for their savings. In spite of these advantages, the system of public deposits as a source of industrial finance has proved to be a very risky one. It has been called " a fair-weather friend " because the depositors are found to be unnecessarily panicky and suddenly to withdraw their deposits. Such withdrawals have been a source of great financial embarassment particularly in times of depression, when the deposits were needed most. This system is not quite sound because the deposits are received for relatively short periods but are locked up in fixed assets and it becomes very difficult to convert them immediately into a liquid form. Furthermore, the system leads to the domination of the managing agents to the detri-

ment of the depositors who are unsecured creditors having no charge on the company's assets, which are independently managed by the directors or the managing agents,

Commercial Banks:

The banks in India do not take any appreciable interest in the financing of industries. This has been attributed to a number of causes, such as, the conservative financial policy of banks, heavy security asked by them, and the absence of technical experts to value the assets of those concerns which apply for loans to the banks. Furthermore, the banks insist on two signatures and this is found rather inconvenient by the industrial concerns. The banks also insist on the pledging of stocks and this is resented by businessmen because it adversely affects their credit in the market. Another great difficulty in the way of commercial banks taking a greater interest in industrial finance is the lack of assurance of rediscount facilities from the Reserve Bank against these advances. This point was particularly emphasised by Seth Pranlal Devkaran Nanjee before the first session of the All India Manufacturers' Conference held at Bombay.

Various proposals have been made to induce banks to take a greater interest in the finance of industries. It has been stated that banks in India should follow the German banks by pooling their resources and investing the same in industries, that they should keep themselves in intimate touch with industries so as to enable themselves to adopt a more sympathetic and liberal attitude towards them. The businessmen on their part should be willing to disclose their financial position to their bankers when applying for an industrial advance. Proposals have also been made to compel the insurance

companies to invest a part of their funds in industrial enterprises by suitable legislation amending the Insurance Act of 1938. The huge profits made by the railways after the outbreak of the present war have also attracted considerable public attention and it has been suggested that a part of these profits should be legitimately diverted to the small and medium scale industries.

4. Finance of Companies:

The Stock Exchange: The problem of financing of companies makes it neccessary for us to study the state of the investment market in India. It is the stock exchanges which act as the channel of mobilising public savings for the benefit of business enterprises The investment market in India is not in a satisfactory condition and suffers from many grave defects. There is no scientific study of the character and mentality of the Indian investor This is so because of the financial institutions like underwriters, issue houses, etc. The stock exchanges are mere fields for speculation and grambling rather than of systematic investment The general state of the stock exchanges in India might be very well typified by the study of one of them and it is proposed to undertake a close study of the Bombay Stock Exchange.

The Bombay Stock Exchange:

The Bombay Native Share and Stock Brokers' Association, popularly called the Bombay Stock Exchange, was established in 1887 and commenced its operations under a tree in the open space near the present site of the Mercantile Bank of India: Gradually, the Association winded its activities and assumed its present imposing and captivating form—in fact so captivating as to make overnight paupers of millionaires and millionaires of paupers—but more often the

former than the latter. The working of the exchange has been made very systematic while its operation has been rendered very elaborate so as to facilitate the negotiations and the sale and purchase of joint stock securities promoted throughout the province of Bombay. The powers of the Association are defined by rules and regulations framed by the Governing Body of the Association and approved by the Government of Bombay. The activities of the members are controlled by a Board of Directors which has wide powers in regard to the admission, expulsion of members, settling of disputes, regulating brokerage, closing down the exchange etc. In spite of this elaborate mechanism designed to ensure efficiency of operation and management, there have been many complaints from the public against the stock exchange. These complaints were placed before the Atlay Committee in 1924 and the Morison Committee in 1937 We shall examine some of them

Public Complaints.

The Association in a representation to the Morison Committee in 1937 observed that the public speculate on the basis of tips and rumours and complaint against the Exchange when they are involved into a loss. Both the Atlay and Morison Committees agreed that some of the public complaints were misconceived and unjustified and stated that some who blame the Association should more justly blame themselves.

These complaints against the Exchange may be considered under the following heads.

1. *Redress of public grievances :* It has been pointed out that the Association does not permit public representation on the Board of Directors and thus there is no scope for the public to place their grievance before the Association nor to exercise a disciplinary authority

over the members on behalf of the public.

2. *Holidays:* A common public complaint is the great number of days on which the Exchange is closed. The Atlay Committee calculated that the Exchange is closed completely for 155 days in a year, is open for 144 days for two hours and for 66 days it is open only for the whole of a short working day.

3 Closing of the Exchange without authority

4. Multiplicity of forms of transfer and contract notes.

5. No official list of prices The Association does not issue any printed list of ruling prices and the public experience great difficulty in ascertaining the correct prices.

6 Arbitrary fixation of minimum prices

7. Closing on the death of a member.

8. The predominance of the sub-broker : The sub-broker whom the Atlay Committee called "as tipster and a tout" is an irresponsible person and is found to dupe and misguide the public by wrong advice.

9. *Corners* . A corner occurs when shares are over-sold or when sales are matched and the operators are involved into heavy losses. This leads to a panic in the market and the public are involved into a financial crisis

10. Wreckless Speculation.

11. The Morison Committee observed that the intervention of the Board of Directors to extricate operators from a difficult situation was against the recognised principle of inviolability of bargains which should characterise the working of any stock exchange.

12. Another point of criticism against the exchange is the absence of any division of members into jobbers and brokers.

In recent years the necessary measures have been adopted ro remove some of the defects e.g. the adoption of the weekly settlement, increase in the value of

the membership card to about Rs. 20,000/-. The association has introduced a uniform contract note form and had been issuing an official price list until recently when it had to be discontinued owing to shortage of paper The recent prohibition of option business inside the ring brought into effect under Government ordinance has been a step in a desirable direction There is, however, great scope for further improvement in the direction of reducing unhealthy speculation and controlling remisiers-

Suggestions for Further Reading

GENERAL

1. T. E Gregory *An Introduction to Finance*
2. Hartley Withers *Stocks and Shares,*
3. Hogland H E *Corporation Finance.*
4. Mead E S *Corporation Finance.*
5. Burtchett F F *Corporation Finance*

INDIA

1. Report of the Indian Central Banking Enqufry Committee
2. Report of the Indian Industrial Commission.
3. Reports of the Bombay Stock Exchange Enquiry Committees (Atlay Committee and Morison Committee).
4. Report of the Bombay Provincial Banking Enquiry Committee
5. Report on the Marketing of Wheat in India.
6. Loknathan P S.: *Industrial Organisation in India.*
7. Samant D R and Mulky M A; *Organisation and Finances of Industries in India*
8. Das N. G.: *Banking and Industrial Finance in India.*
9. Basu S. K.: *Industrial Finance in India.*
10. Soni H. R.. *Indian Industry and its Problems.*
11. Nabar R R.. *Successful Speculation in Shares,*
12. Jain L. C.: *Indigenous Banking in India.*

CHAPTER IV

TRANSPORT

THE development of transport is one of the essential conditions for the development of commerce. As Marshall wrote "The dominant fact of our own age is the development not of manufacturing, but of transport industries". A well-organised system of communications facilitates the movement of goods and thus renders great assistance to commercial operations. In the words of Dr. Fenelon, "Transport is a compendium of existence—a prerequisite of well-ordered national life" Modern transport with its regularity, safety, cheapness, speed and promptness has become one of the most essential adjuncts of modern society. By accelerating mobility of persons and goods, of culture and civilisation, it has proved itself to be a very powerful agent of economic progress in the world. Modern transport facilities have brought products and consumers nearer and have helped greatly in widening the market for a commodity. In recent years, motor transport has given considerable flexibility to modern commerce and has been one of the most outstanding developments in the history of world commerce

General Functions

1. Transport aids production by conferring place

5. Modern transport facilitates the production, exchange and consumption of commodities. By carrying the raw materials and half-finished goods to the factories, it aids production and by carrying the finished goods from one place to another, it aids the exchange of commodities.

6. Transport helps to bring about a state of industrial and economic equilibrium by facilitating the distribution of wealth from one industry to another and bringing about conditions of fairly perfect competition.

7. Transport facilities aid the mobility of the factors of production both in a horizontal and vertical direction. It transports labour from one place to another and thus brings about an equity of supply. Similarly, transport mobilises capital and transfers it from one place to another and thus brings about uniform, stable and well-balanced monetary conditions in society. In India, it has been pointed out that transport facilities are inadequate and badly planned with the result that there is a chaos of fnterest rates and a general state of confusion in the financial and economic life of the country.

8. Transport has increased economic wealth or surplus by extending the marginal unit of production especially in agriculture to those remote lands which, before the transport facilities came into existence, were in an uncultivated and neglected state.

Different Means of Transport :

In classifying the various means of transport, different standpoints may be adopted. We may define them either according to their mode of carriage or according to the private or public track which they use for the purpose. The latter distinction is based upon the

amount of capital required for the operation of each type of transport facility.

In general the following means of transport are common in modern society :

1. Railway transport. 2. Motor transport. 3. Ocean transport carried on by means of tramp steamers and big vessels. 4. Inland water transport carried on by means of barges and small boats operating in rivers and canals within the country 5. Air transport.

Advantages of Rail Transport

1. For the carriage of bulky goods over long distances, the railways possess a distinct advantage over other means of transport

2. Railways are the fastest means of land transport and bring about great economy of time.

3. In recent years, carriage of perishable commodities has been made possible by railways by providing special air-conditioned carriages.

4. Railways operate according to fixed time tables and the regularity and promptness resulting from this are a great advantage.

Disadvantages :

1. A huge amount of capital has to be sunk and the cost of maintenance of railways is very heavy.

2. There are constant delays at terminals

3. The cost of carriage is comparatively high.

4. There is a great amount of state interference.

Advantages of Motor Transport :

1. The cost of operation and maintenance of motor transport is comparatively low.

2. The capital required is also comparatively small.

3. It offers a very elastic means of transpart e.g. the buses relax their time tables in many cases, they provide a door-to-door service, etc. Besides, the

number of buses can be immediately adjusted to the volume of traffic.

4. For the carriage comparatively less bulky goods over short distances or for carrying perishable commodities like dairy products, vegetables etc. over short distances, motor transport is very suitable

5. The relaxation of timings sometimes makes motor transport speedier than railways.

6. Probably the greatest advantage which motor transport offers to the business community is the manner in which the goods are loaded and unloaded. Motor buses pick up the goods on their way so that the carting expenses and loading and unloading charges are either totally eliminated or considerably reduced. This also leads to a reduction of transhipment charges and of possibilities of damage and pilferage. Very often the motor lorries go to the godowns of the consignors and the consignees.

7. The freight rates charged by the motor lorries are very much lower than those charged by railways.

Disadvantages of Motor Transport.

1. The laxity of timings makes motor lorries rather an uncertain means of transport.

2. There is a great possibility of breakdowns and accidents owing to the negligence of drivers.

3. So far as passengers are concerned, motor lorries are very uncomfortable and physically tiresome owing to over-crowding.

Advantages of water Transport:

1. Water transport is probably the cheapest form of transport owing to a number of causes, such as the provision of a natural track, lower cost of operation.

2. For the carriage of bulky goods over long distance, water transport is most suitable.

3. Steamers carry much greater quantity than either the railways or the motor lorries.

4. Inland water transport offers the advantage that the barges and small boats can load at any point along the river or the canal or can load and unload goods alongside a steamer and this eliminates many incidental expenses

Advantages of Air Transport ·

1. Air transport is more suitable for the carriage of small quantities of goods with small bulk and great value.

2 It is the fastest means of transport and thus saves a great amount of time.

Disadvantages of Air Transport :

1. Great possibilility of accidents due to fogs etc.

2. Heavy cost of operation and maintenance of aerodromes and ground organisation.

The choice of a particular method of Transport :

In deciding which particular means of transport should be adopted, the following considerations should be taken into account

1. *The type of goods :* If the goods to be carried are of a perishable nature, they must be carried by the fastest possible means of transport. Similarly, goods requiring special conditions whilst in transit, should be carried by railways in special wagons.

2. *The value, weight and bulk of the goods :* If the goods are of small value but of great bulk, they can be more conveniently carried by railways. On the other hand, goods of great value and small bulk can bear the high charges of air transport.

3. *The distance over which the goods are to be carried .* If they are to be carried over comparatively long distances, rail transport is distinctly more convenient than motor transport.

4. *Time of delivery* : If the delivery is to be given at an early date, that mode of transport will have to be adopted which will carry the goods to their destinations in the desired time.

5 *Cost of Transport* If alternative forms of transport lend themselves easily for the carriage of goods on the above considerations, the final choice amongst them should be guided by the differences in their cost. Under these circumstances, the cheapest will prove to be the best mode of transport.

Social Effects of Transport

1. By bringing about a considerable mobility of the factors of production, modern transport prevents any social or economic stagnation in the country.

2. By transporting comforts and luxuries over a wide area, transport facilities lead to a higher standard of life of the population.

3. Transport facilities lead to a general optimism and ambitious outlook amongst the members of society because they broaden their outlook and give them considerable confidence in overcoming business obstacles

4, Transport leads thus to greater economic welfare by stimulating production and consumption in the society.

5. Facilitates the distribution of knowledge, information and ideas amongst the different sections of the public and generally brings about a closer social and cultural contact amongst the different parts of the country.

As against the above good effects must also be considered the unduly rapid rise in population, the deplorable social conditions of industrial towns springing up along railway routes and the unfair competition which some industries with better transport facilities offer to others not so favourably placed.

Effects of Railway in India.

It would indeed be difficult and prematurc to draw a balance sheet of railway administration in this country. Firstly, because it is too early to undertake this task and secondly, because a real development of a widely spread railway transport facilities is yet to come within the country. We may, however, examine the immediate effects of the introduction of railways in this country and find our consolation in this optimistic thought that the future will continue the good effects and compensate for the evil ones, in a satisfactory manner.

1. The distant places in the country have been brought closer to one another with far-reaching social and cultural effects.

2. Transport services have been of great significance in minimising the disaster and ruin which famines inflict upon the people. In the 19th century famines occurred frequently but assistance could not be given to the famine-stricken areas because of the absence of railways or other organised means of transport.

3. Railways have facilitated the movement of goods and raw materials and this has been of particular help to the agriculturists. The widening of the market for agricultural produce has been mainly responsible for the increasing agricultural incomes.

4. Railways in India have been very useful in bringing about a fair equalisation of prices and have brought into existence considerable identity of business conditions within the country.

5. Railways in India have created new employment by stimulating the development of engineering and other industries and by hastening the growth and development of telegraphic communications,

6. Railways have resulted in a considerable mobility of capital.

7. The mobility of population which has resulted from the building of railways in India, has not only brought about an equalisation of labour supply but has also widened the outlook on life of the Indian people by overcoming their traditional inertia of the home.

8. The Indian Railways are supposed to have brought a considerable increase in the taxable capacity of the people and lowered the incidence of taxation.

9. Finally, the railways have been very valuable source of revenue to Government.

Evil effects :

1. *The destruction of Indian indigenous industries.* The railways brought the foreign manufactures far into the remotest parts of the country and enabled them to compete successfully with local manufactures. The result was that in course of time, the indigenous industries were driven out of existence.

2. It has also been felt by some writers that the fuel required by the Indian railways has resulted in a diversion of the forest wealth of the country.

3. Some people feel that the railways have been one of the important gateways through which foreign capital has secured an entrance into the economic life of the country. Ordinarily, there would not have probably been a serious objection to the admission of foreign capital; but it has generally been felt that these foreign capitalists constitute a powerful vested interest wielding unduly great influence in the economic and political life of the country. This argument has however lost much of its original force owing to the recent repatriation of a major part of India's sterling debt.

4. Then again, the view has been expressed that the railways have made it possible to drain the country of its raw materials and to push the foreign manufactures into the Indian market,

RAILWAY RATES.

Importance · The cost of transport forms a very important element in the final cost of goods to consumers. Railways form one of the most important means of transport in the distribution of goods. The rates charged by the railways for carrying goods constitute therefore an important part of the final price of commodities Railway rates thus determine not only the degree of marketability of certain commodities but also may be regarded as considerably influencing the general economic development of the country.

The fixation of railway rates should be guided by the marginal cost which is incurred to provide the service and the marginal utility resulting from it The two limits within which the monopolistic powers to fix railway rates can be exercised are the cost to the railway administration and the value of the railway to the consignees. The question of railway rates is particularly important in this country. A well-planned and well-executed railway policy can be of incalculable importance in India with relatively inadequate alternate means of transport. On the other hand, a short-sighted and badly planned railway rates policy can ruin the economic system in course of time, e.g. if high rates were fixed on manufactures, the price to the consumers would be raised to that extent and would impose great hardships upon them. The task of fixing railway rates is a very difficult one and requires great skill, judgment and a thorough knowledge of the economy of the country as well as the general theory of economics of

transport. The equity and profitability of railway rates can only result after a long experience and experimentation with different classes of goods and is thus bound to be a very slow process.

The primary function of railway rates structure is two fold: In the first place, it should be comprehensive enough to deal appropriately with all classes of traffic that may arise and secondly, it should be adaptable enough to admit of special quotations to be given in special circumstances The manner in which the railway rates policy can determine the economic fate of the country may be better seen in relation to the various advantages which a well-guided railway rates structure confers upon it e.g. if the railway rates for carrying raw materials to the factories were comparatively low, the cost of production would be reduced with advantages both to the manufacturers and consumers Similary, if the railways charged low rates for carrying finished goods to the consumers, the commodity will be within the reach of a greater part of the population and thus stimulate industrialisation of the country, and raise the general standard of life of the population. A favourable railway rates policy brings about economic unity within the country by linking the various parts with one another, by facilitating exchange of goods and information and by imparting mobility to labour, capital and organisation which are indispensable for production.

Theoretical Basis of Railway Rates:

The most interesting and important aspect of railway transport is the manner in which the railway rates are fixed. The questions which arise in this connection are: What should be the principle which should guide such fixation? What is the criterion to decide reasonableness of railway rates? What types of rates should

be raised for particular types of commodities? Various theories have been advanced by economists from time to time to guide railway administrators and we shall examine some of them below.

Cost of Service:

Some economists have suggested that like other businesses, the railways may fix their price of service to carry goods on the basis of cost which they incur actually to carry them Just as businessmen calculate their cost of production and add to it their share of profit and fix the final price, so also the railway authorities should base their freight rates on the cost of carriage which they incur.

There are some obvious difficulties in adopting this method of fixing railway rates In the first instance, the cost of carriage basis is practically impossible because it is difficult to estimate precisely the cost of carriage of a particular item owing to the fact that a major part of the railway capital is of a fixed character and it is very difficult, if not impossible, to allocate the different heads of cost to different classes of commodities. Moreover, the cost of carriage cannot be known before actually carrying the goods and often the cost depends upon the volume of traffic handled. Thus, the cost cannot be ascertained beforehand and therefore the railway rates which are fixed in anticipation of traffic cannot be economically just nor practically profitable. The cost of service principle can operate most successfully only under conditions of perfect competition but as the railways generally operate on monopolistic lines, it cannot be taken as a guiding principle. Then again, cost of carriage as well as the volume of traffic upon which it depends fluctuate widely from time to time and from one part of the railway to another Probably,

the strongest objection to the cost of service principle as the basis of railway rates would arise from the fact that it ignores the ability of the traffic to bear the rate and thus would unnecessarily penalise the poorer members of society at the cost of rich ones because articles of small value and huge bulk would be charged on the same level as articles of great value and small bulk. For all these reasons, as Sir William Acworth says, "To claim that rates shall automatically be fixed on the basis of cost of carriage is to claim what is impossible". Nevertheless, the cost of service principle serves as a good check upon the capacity of railway authorities and also indicates the limit below which the railway rates cannot go.

Value of Service:

Another basis proposed for the fixation of railway rates is the value of service to the goods It is said that the value of service as a basis of rate making begins where the cost of service principle ends, Under this principle railway rates should be fixed in relation to the value of the goods carried. This is also expressed by the classical phrase: "Charging what the traffic will bear". While the cost of service principle takes into account only the supply side of railway service, the value of service principle emphasises only the demand side of the question. The principle is regarded as a more practicable and judicious way of levying railway freight as it discriminates between one class of traffic and another and thus spreads more equitably the sacrifice involved in paying for the transport service. This principle provides for elasticity of railway rates, maximisation of railway earnings and a judicious apportionment of the economic burden.

Let us see what exactly is implied by the phrase:

"Charging what the traffic will bear". It really means that between the lower limit set by the cost of service to the railways and the upper limit set by the ability of the traffic to bear the rate, the railway rate should be fixed as to result in an equitable concession to the poorer members of society and equalise the sacrifice made by the payer. According to Sir William Acworth, the phrase "will bear" means either "is able to bear" or "can be made to bear". It is better expressed by saying "not charging what the traffic will not bear" It does not however mean that the railways can charge all that the traffic can bear i.e. they cannot allocate to themselves all the difference between the two place values of a commodity. If they do so, the traffic will decline and the railway earnings will be reduced. This principle is very useful because it aims at social justice and is also valuable for the existence of key industries,

The railway authorities can manipulate the rates based on this principle to their own advantage and this is bound to impose great hardship upon industry particularly if the demands for the product of the industry is inelastic. The railways are monopolies and no one can question the validity of the decision of the railway authorities in this regard. In spite of these limitations, however, this principle provides a valuable guide to the maximum limit of the railway rates.

Equal Mileage Rates:

This is another method of fixing railway rates adopted by the railway authorities. Under this method, a uniform rate is charged for every mile over which the goods are carried i.e. the cost of carriage varies in direct proportion to distance. Although this method is supposed to represent substantial justice, it is practically

unsound because it ignores the fact of differential cost on different parts of the railway track, and presupposes a uniformity of haulage conditions. What makes it preferable to other methods of charging is its simplicity. This principle, however, does not discriminate between one class of goods and another, and thus penalises commodities of small value and great bulk. Moreover, when we bear in mind that the railways operate on the principle of diminishing costs, the impracticability of this method is obvious.

Zone System ·

Under this method the country is divided into different zones and there is a uniform rate applicable to all distances within the zones, but a different rate between one zone and another. The great advantage of this method of charging is its simplicity. This method however, results in penalising short distance traffic.

Postal Principle :

Under this method of fixing railway rates, there is a universal rate as in the case of letters. Although this principle appears to be quite simple on its face, it is impracticable because railways have not as complete a statutory monopoly for the carriage of goods as the post office. Moreover, the postal rate is so low that any small change, although really excessive, passes unnoticed. This will not be so in the case of railway rates,

Tapering Rates :

Railway charges based on this principle decrease with distance i.e. longer the distance, the less is the railway freight.

Blanket Rates :

These are adopted on some of the American lines under which a lower charge is levied for specified haulage between two points very distant from each other

Agreed Charge :

This is a method of fixing railway rates adopted by the English railways. Under this method the railway rates are based upon the average traffic provided by each shipper over a number of years.

Railway Rates Policy of the Government of India :

It has been represented that the railway rates are fixed only from the standpoint of railway earnings rather than the economic welfare of the country. Indian businessmen have complained that the railway rates are more favourable to non-Indian businessmen and discourage Indian trade and industry by unduly heavy rates. Moreover, it is stated that the railway policy of Government is so designed as to encourage traffic from and to the port towns with the result that raw materials are very easily drained off from the country for the purpose of export and the imports of foreign manufactures are greatly facilitated. This has prevented the more important development of the internal trade of the country. The Indian Industrial Commission, Indian Fiscal Commission, and the Royal Commission of Indian agriculture have all examined the railway rates policy of Government and made valuable suggestions, some of which have been executed by Government. Furthermore, the competition amongst the railways has resulted in encouraging the export of raw materials and the import of foreign manufactures with disastrous effect upon Indian industries. The confusion of gauges on the Indian railway system and the host of preferential rates in the Indian railway traffic combined with the apathy of Government and the absence of any responsible centralised authority to fix and control railway rates have made Indian railways only valuable sources of revenue to Government and of assistance for

military and strategic purposes rather than of intrinsic value for the economic welfare of the country.

The railway policy of Government is influenced by the Railway Rates Advisory Committee which was appointed in 1926 on the recommendation of the Acworth Committee on Indian Railways to advise Government on matters of railway rates policy. The other matters of railway administration are being carried on by the Railway Board of the Government of India. Under the Government of India Act 1935, the general control and administration of railway policy in India are placed in the hands of a statutory executive body known as the Federal Railway Authority.

The Problem of Rail-Road Competition

In recent years the different means of transport have been competing with one another and resulting in a considerable amount of waste. Motor transport particularly has been fast encroaching upon the earnings of railways and it has been found very difficult to reconcile the conflicting interests of these two means of transport. Theoretically, however, there is no reason why the different means of transport should compete with one another. If we analyse the theoretical sphere of activity of different transport agencies, we will realise that there is a distinct field of operation belonging to each agency in which it can operate most economically and successfully to the benefit of the entire country. And if any competition does exist, it is not because the different means of transport are competitive but because they are being incompetently managed. For example, road transport is suitable for conveying goods of relatively small bulk and also a few passengers over short distances. The railways on the other hand, are exclusively suitable for the conveyance of heavy goods

traffic and good many passengers over long distances on land, It is therefore generally impossible that these two means of transport can compete with each other over long distances. Even if such competition does exist over short distances, it is the result of a lack of a well-planned transport co-ordinating policy and would not justify any facile generalisation. In many cases road transport can accomplish the task of assembling goods and passengers at railway stations for long journeys from remote inland places, into which the railways cannot possibly penetrate. In this sense the road transport serves as a complimentary tributary to the rail transport rather than a competitive rival. There are certain regions in which railway construction is difficult, uneconomic or impossible. There are others in which the high railway freight and the rigid timings impose a hardship on the consumer. In all these circumstances the motor transport should be regarded as a happy feeder to the rail transport rather than as one offering competition to it.

Rail-Road Competition in India .

The financial outlook of the railways has been rather disappointing. There have been successive deficit railway budgets since 1931 till recently and the constant heavy raids on the depreciation fund to meet the interest charges and the consequent absence of any contribution to the general revenue of the Government have led to a more critical examination of the operations of railways in India during recent years. Although the disappointing results of railway finance have been attributed to world economic conditions, yet the effect of the competition of road transport upon railway revenues is a factor of great significance to the question.

The road policy of Government is not co-related with its railway policy. Roads are constructed parallel to the railways and they offer severe competition to the railways especially over short distances. About 22% of the mileage of the metal roads is parallel to the railways while 48% of the railways have metal roads running parallel to them, the extreme case being the N.W.F. Province with 94%, the C. P. being the next with 73% and the U. P., Madras, and Bombay following with some 60%.

It is very difficult to frame an accurate estimate of the losses incurred by the railways as a result of road competition because there is no proper census of road motor transport while the statistics furnished by the railways are also not quite reliable The rail-road competition in India is mostly confined to passenger traffic over short distances, although a certain amount of competition for the carriage of merchandise is also reported in recent years by the East Indian and Eastern Bengal railways. The Mitchell-Kirkness Report of 1933 on the rail-road competition estimated a total annual loss of 186 lakhs to railways due to motor competition. Only one railway *viz.* the North Western is suffering an annual loss of Rs 4½ lakhs due to road competition. It might be stated that at present the railways are losing something in the neighbourhood of Rs. 5 crores, (made up of about Rs. 4 crores for passenger and about Rs. 1 crore for goods traffic,) owing to this competition or about 5% of their gross earnings of a normal year—these being about Rs 100 crores, Although the competition for the carriage of merchandise is still in its infancy, it is bound to increase with the general improvement of roads, the possibility of improved motor vehicles for carrying merchandise and the

revival of trade within the country.

When we examine the problem of rail-road competition in India, it is clear that the impact of this competition was more severely felt by the smaller lines than the larger lines owing to the shortcomings of the narrow gauge railways which may be summed up as under: limited speed, want of flexibility, inability to provide door-to-door service and other miscellaneous disadvantages to the public, e.g. incivility of ticket inspectors etc. The Central Provinces possess probably the largest concentrated system of light railways and the road competition has had a disastrous effect upon the railways The following statement gives the important total ranges in mileage of motor competition with railways in the important provinces .—

Province		*No of Miles.*
Bombay	..	547
Madras	..	82
C. P.	..	188
U. P.	..	15)

Although the motor transport is thus gradually encroaching upon the field of railway transport and is adversely affecting railway revenues, it should be remembered that the development of motor transport has brought considerable business to the railways in the transport of petrol. The amount of earnings of all first class railways from petrol during the year 1930-31 was estimated by the Mitchell–Kirkness Committee at Rs. 53,63,000.

We may now consider the various factors and circumstances which enable the motor transport to compete with the railways. Over short distances the motor competition is particularly severe because it offers speedier mode of carrying passengers than the

railways. Over long distances, however, the motor competition is not felt by railways who have retained their supremacy. The motor competition has not challenged the supreme position of railways in regard to the carriage of heavy and bulky articles. On the other hand, motor transport has the advantage over railway transport for goods traffic in the fact that there are no terminal transhipment and other delays and no costs of loading or unloading the cargo. Motor transport is enabled to compete with railway transport owing to the fact that its costs of maintenance and operation are much less than those of railways. It does not require stations, sheds, signals, sidings, special wagons or huge amount of rolling stock like the railways. From the side of demand for motor transport, the public prefer motor transport to railway transport owing to the fact that it offers cheaper rates and fares, flexibility of time tables to suit this convenience of passengers, door-to-door service, although the other counteracting factors are: physical inconvenience due to over-crowding, irregularity in starting and arrival, a great possibility of accidents and rudeness and indifference of drivers.

The railways have pointed out the unfairness of the competition by stating the differential advantage which the motor transport gets in regard to public control e.g. inadequate inspection of public motor vehicles, systematic over-crowding, no legislative restriction in regard to hours of work, no examination of the ability of the staff, no official enquiry into motor accidents.

The railways have adopted many measures to meet this growing competition. e g. revision of time tables to suit the convenience of the public with special

reference to junction connections, a substantial reduction in rates and fares, increase in the speed of the train, the establishment of an intelligence service In the case of the G, I. P. railway, a receiving office for parcels has been established near the Reay Market in Poona to meet the motor bus competition for the carriage of fruits, vegetables and toddy It has also introduced special rates for rice from Asangaon to Bombay, from Ghoti to Nasik and Nasik to Manmad, the issue of cheap return tickets etc.

Co-ordination of Transport

In co-ordinating the different means of transport the principle objects that should be kept before our mind are · provision of the service at a minimum cost, the elimination of inefficient means of transport and a harmonious and well-planned control and regulation of transport services in the welfare of the country and the elimination of wasteful competition. Co-ordination of transport must restrict each means of transport to that sphere of activity to which it is best suited The problem, however, is not as simple as it looks. Various alternative solutions have been suggested for bringing about more harmonious relationship between these different means of transport. It has been suggestsd that the railway and the motor transport should work in a spirit of co-operation by means of through rates, mutual arrangements for loading, unloading etc. Generally, the following forms of co ordination have been suggested.

1. Co-ordination through voluntary co-operation.
2. Co-ordination by making motor transport either controlled by railways or subsidiary to them.
3. Statutory co-ordination.

4. Co-ordination through nationalisation of all transport services.
5. Unrestricted competition
6. Combined monopoly of road and rail.

Transport Co-operation in India

To eliminate the wasteful competition between railways and motor transport, the Mitchell-Kirkness Committee recommended better control and regulation of motor transport, a system of assigning a particular zone to motor cars and railways, taxation of motor transport and the adoption of a system of licensing motor vehicles The Wedgwood Committee of 1937 on Indian railways also endorsed the view that road tranport should be properly regulated and controlled The Committee remarked that if adequate steps were not taken to co-ordinate road and rail transport, an increase of 100% on the then existing losses of railway revenue would be well within the possibilities of the case.

With this note of warning before their mind, the Government of India passed the Motor Vehicles Act in 1939 giving effect to many recommendations of the Committee. The Act has made provision for the control of motor vehicles by the Provincial Transport Authority, the operation of motor vehicles under a system of permits which are issued only on the fulfilment of certain specified conditions by the motor car owners such as keeping the vehicle in good working order, observation of speed limits, regularity of service. The Provincial Government are entrusted with the control and development of road transport and are supposed to take into consideration all the relevant factors of co-ordination in granting the licenses to motor vehicles. The most noteworthy feature of the Act is the compulsory insurance of motor vehicles

against third party risks Government have also increased the import and excise duty on motor spirit and formed a Road Fund from which grants are made to the Provinces for road construction. Government have also amended the Railway Act and authorised the railways to operate motor services. A Transport Advisory Council consisting of Provincial Ministers of Communications was also formed in 1925 The appointment of a new Member in charge of Communications on the Viceroy's Executive Council and the Creation of a new Department of Communications from 1937 may also be expected to be an important measure of reform in the direction of transport co-ordination in India. In the same year Government appointed the Wedgwood Committee on rail-road co-ordination which made some valuable recommendations which were subsequently embodied in the Motor Vehicles Act of 1939.

Niemeyer Award-1936:

In 1936 Sir Otto Niemeyer was invited by the Government of India to conduct a financial enquiry as required by the Government of India Act 1935. The great significance of the Report submitted by Sir Otto for the problem of transport co-ordination in India lies in the manner in which he succeeded in linking the financial interests of Provincial Governments in the Central Treasury with an increase in the income tax receipts by the latter. The way in which Sir Otto achieved this remarkable result was as follows He took for granted an average steady income tax revenue of Rs. 12 crores. He recommended that half of this should be retained by the Provinces, but for the first five years it was to be retained by the Federal Government in order to consolidate its financial position After the

five years, the provinces were to get a certain amount gradually so as to place them in a position to receive their full hypothetical share of Rs 6 crores. In addition to this, the Central Government also promised cash payments to the provinces, cancellation of a part of the debt which they owed to the Central Government and the distribution of $12\frac{1}{2}\%$ of the Jute Tax. As a result of these cash subventions and a share in the income tax, the Provinces were forced to take a keen interest in raising the railway earnings because higher the railway revenue, the higher the income tax receipts and the higher the share of the Provinces. Thus the Provinces were directly entrusted with increasing the railway earnings in their own enlightened self-interest and indirectly entrusted with the problem of rail-road co-ordination.

INDIAN SHIPPING

In olden times India had a flourishing mercantile marine with the help of which she was able to send her goods of the remotest parts of the earth. Indian ship-building industry was one of the glorious point of honour to Indians of those memorable times. Gradually, however, the ruthlessness of historical evolution and the force of unfortunate circumstances wiped this industry out of existence until to-day when India has to depend upon foreign ships to carry her goods to foreign markets. Indian ships operate only along the coast. The life of Indian shipping to-day is beset with many difficulties the most important of which is the unfair foreign competition.

The various problems of Indian shipping may be conveniently studied under the following heads ;

1. Reservation of coastal Trade. 2. Shipping Conference. 3. Deferred Rebate System. 4. Indian

Mercantile Marine. 5 State Aid to Indian Shipping.

Reservation of Coastal Trade :

Reservation of coastal trade implies a monopoly granted to the ships of the country to carry on the trade between the various coastal ports. This may be regarded as one of the means by which government can offer indirect aid to the shipbuilding industry of the country. In India there is no reservation of coastal trade for Indian ships and there has been an insistent public demand for the same. Most of India's foreign trade is being carried on by foreign ships mostly British. This has been regarded as very unsatisfactory particularly in view of the fact that India has also the requisites such as huge forests, iron deposits, fuel resources and an extensive coast line to enable her to become one of the greatest maritime nations in the world.

The problem of coastal reservation was examined fully by the Indian Mercantile Marine Committee appointed by Government in 1923 to investigate into the entire question of the development of Indian shipping.

Arguments for Reservation :

1 That Indian shippers would be liberated from the harsh and humiliating treatment meted out to them by non-Indian shipowners

2. The rates of freight would cease to be exclusively favourable to non-Indian shippers and industries.

3. There will no more be a collusion between the non-Indian shipowners and the railway authorities to drive not Indian shipping,

4. Trade between small ports and the improvement of port facilities have considerably increased and this is indeed a favourable condition to make coastal reservation a success in India.

5. That the freight money instead of enriching

foreigners will remain within the country itself, and can be utilised for the national economic welfare.

6. Reservation of coastal traffic will lead to the general development of Indian shipping and will thus provide new careers to Indian youths.

Arguments against Reservation

1. It would result in a shipping monopoly and thus increase coastal freight.

2. It would give rise to undesirably bitter racial feelings.

3. It would amount to expropriation.

4. It would result in unfavourable reactions on Indians abroad.

5. It would result in a breach of international agreements if Goa and Pondicherry, were included in the scheme of reservation

6. India is not so favourably placed as is generally supposed to become a great maritime nation, e g. lack of raw materials, skilled labour, shipping experience and enterprise.

Shipping Conference :

This is probably the greatest obstacle in the way of Indian shipping. This follows naturally from the existence of foreign competition. A shipping conference denotes a combination, more or less close, of shipping companies formed for the purpose of regulating or restricting competition in the carrying trade on a given trade route or in a given commodity. The companies who are members of a shipping conference or "Ring" pool freight money, allot carrying rates amongst themselves, agree to follow a uniform schedule of freight rates. The actual organisation of a shipping conference differs with different circumstances. It may either be a regid type of organisation or a loose type to meet periodical requirements.

Advantages :

1. Regularity of sailings. This has, however, been refuted by Indians by saying that this is not quite a direct result of shipping conference.

2. Stable rates of freight. This however turns out to be a disadvantage to shippers when freight rates are declining.

3. Elimination of competition But this results in a monopoly which is often exercised to the detriment of shippers.

4. Provision of high class steamers. High class steamers can however be provided even without the existence of shipping conferences.

5. Uniform rates of freight This however is not always maintained and the conference companies do make a distinction between small and big shippers and give preference to Government, railways and municipalities.

6. Economy in cost of service. This however is not true because the provision of high class steamers results in high cost of service.

Deferred Rebate System :

This system has been explained in the following words. The shipping companies issue a notice or circulars to shippers informing them that if at the end of a certain period (usually 4 or 6 months), they have not shipped goods by any vessel other than that despatched by members of the Conference, they will be credited with a sum equivalent to a certain part (usually 10%) of the aggregate amount of freight paid on their shipments during that period and that this sum will be paid over to them if at the end of a further period (usually 4 or 6 months) they have continued to confine their shipments to vessels belong-

ing to members of the conference. The sum so paid is known as a deferred rebate. The system adopted by non-Indian steamship companies is acting very unfairly upon the Indian shipping companies and is even threatening their very existence. The non-Indian shipping companies point out that this system is an indirect protection to Indian shipping companies, as it makes it difficult for new competitors to enter the field and further that it ensures regular service, stability of freight, and equality between large and small shippers. This, however, does not appear to be quite convincing and the final judgment upon the system should be passed exclusively with reference to its effects upon the Indian shipping interests. In this connection, the Indian Fiscal Commission recommended that legislative measures should be taken to abolish this system. A Bill to this effect known as the "Deferred Rebates Abolition Bill" was introduced by Mr. S. N Haji in the Central Assembly in 1929. The Bill unfortunately could not reach the final stage.

The Indian Mercantile Marine :

The problem of the establishment of a mercantile marine in India was examined in details by the Indian Mercantile Marine Committee in 1928. The Committee recommended the establishment of a training ship, reservation of a coastal traffic by a system of licenses, navigation and construction bounties to Indian shipping companies and Government patronage to Indian shipping companies in regard to mail contracts and Government stores traffic. The Committee also proposed that Government should buy over one of the existing British shipping companies and operate it with a view to it's ultimate transference of its ownership to Indians. Furthermore, the Committee suggested that Govern-

ment should extend help for the construction of a shipbuilding yard by an Indian shipping company. The Government action on these recommendations has been restricted to the establishment of "Dufferin" ship to train cadets in Bombay. Recently the Scindia Steam Navigation Co., Ltd., constructed a shipbuilding yard at Vizagapatam.

State Aid to Indian Shipping

The question of granting assistance by Government, to the Indian shipping industry is one which requires a careful examination. This question may be raised with great insistence after the present war when there may be great scope for the development of Indian shipping enterprise. It is not possible to discuss the question here, but we may only refer to the various forms in which the necessary state aid might be extended

Direct State Aid:

1. Construction bounties.
2. Navigation bounties.
3. Equipment bounties.
4. Fishing bounties.
5. Mail and Postal Subventions.
6. Payment of Suez Canal Dues.
7. Construction loans.
8. Admiralty subventions.

Indirect State Aid:

1. Reservation of coastal traffic.
2. Exemption of import duties on shipbuilding materials.
3. Loans to shipowners.
4. Preferential railway rates.
5. Expemption from port dues.
6. Reimbursement of canal dues
7. Exemption from taxation.

AIR TRANSPORT

In recent years air transport has been assuming increasing importance in India. The Government of India have opened a Civil Aviation Directorate which is entrusted with the important task of developing civil aviation in the country, and have passed the Indian Aircraft Act of 1934 to control and regulate the same. The companies operating the services are: Tata Sons Ltd., Bombay; The Indian National Airways, New Delhi: and the Air Services of India, Ltd., New Delhi. The outbreak of the present war has given considerable stimulus to the training of pilots and the post war period may be expected to equip India with a network of airlines operated by a well-trained staff.

Suggestions for Further Reading

GENERAL:

1. Bonavia M. R. : *The Economics of Transport*
2. Acworth W. M. : *Elements of Railway Economics*
3. Fenelon K. C. : *Transport and Communications.*
4. —Do— : *Railway Economics.*
5. —Do— : *Transport Co-ordination.*
6. Sir H O. Mance : *The Road and Rail Transport Problem*

INDIA:

1. Report of the Acworth Committee on Indian Railways
2. „ „ Mitchell-Kirkness „ „
3. „ „ Wedgwood „ „ „
4. „ „ Sir Otto Niemeyer.
5. Tiwari R. D : *Railway Rates in India.*
6. —Do— : *Railways in Modern India,*
7. Ghosh S. C. *Indian Railway Problems.*
8. Guha S. K : *Transport Co-ordination in India.*
9. Sanyal N. : *Indian Railways.*
10. Srinivasan K. C. *The Law and Theory of Railway Rates*

CHAPTER V

INSURANCE

INSURANCE denotes an agreement between two parties whereby one of them agrees to re-imburse the other in the event of a specified loss in return for a special periodical payment made to him by the other. The person undertaking the risk is called the insurer, the person who is to be indemnified is called the insured and the periodical payment is known as the premium.

ROLE IN COMMERCE

Insurance in general has a very important part to play in the complicated machinery of modern commerce Before the Industrial Revolution and coming into existence of large scale production, commerce was limited both in regard to its magnitude and extent. Consequently, the amount of risk was small and the need for insurance was not very keenly felt. Gradually, however, with the expansion of world commerce and also the adoption of the limited liability principle, commercial men found it necessary to insure the business risks and others found it possible to undertake them in return for some payment.

Modern commercial activity presents a great many possibilities of risks arising before the commodity actually reaches the consumers, e g the nature of the

goods may be such that they are likey to deteriarate, evaporate and suffer a loss in quantity during transit Then there are other risks such as the loss of the goods by fire, accident, etc. The complex organisation of modern commerce involves also risks of price fluctuations. The manufacturer, may find that during the time of manufacture, the price has declined and he will have to sell his goods even at a loss. Insurance, therefore, aims at protecting businessmen from all these risks and liberates commercial activity from some of the obvious dangers with which it is generally associated to-day. As commerce has developed along more and more specialised lines, insurance has also assumed a greater specialised nature. Thus there are the following different forms of insurance :

1. **Life Insurance :**

Under this type of insurance, a businessman is protected from risks of loss of life of his managers, technical staff and other key employees. This has assumed great importance in recent years. The different aspets of this type of insurance are considered below.

2. **Marine Insurance :**

The object of this type of insuranceis to safeguard the interests of exporters and importers in the event of a loss sustained by the goods during transit. It also protects the shipowners from the loss or damage sustained by the ship. It is obvious that without the assumption of marine risks by the underwriters, world commerce would involve heavy financial losses to businessmen. If the goods are not insured, the exporters and importers would be compelled to set aside a part of their capital against the eventuality of the loss of goods at sea. This conservation of capital implies loss of interest to the businessman because he is not in a

position to invest elsewhere until the goods reach their destination and even then the limitations of individual capital to cover such huge risks should also be properly realised Marine insurance, however, has made such idle conservation of capital unnecessary and has liberated it for more productive and profitable purposes.

Businessmen are always anxious to increase the magnitude of their trading operations to the utmost and at the same time to limit their liability and commitments to as short a period as possible. The role of marine insurance is to enable the businessmen to satisfy this twofold object. Furthermore, marine insurance gives an indirect assurance to the bankers who grant discount advances to businessmen and thus facilitates the finance of world commerce. Thus, marine insurance is the last link which completes the chain of international trade, the ship carries the goods, banks finance them whilst marine insurance protects them. Shipowners, bankers and marine insurers provide a channel along which world commerce flows smoothly. Marine insurance thus completes the triple alliance in all kinds of operations in the commerce of the world.

3. Fire Insurance

Storage is one of the essential services in the process of marketing and goods have inevitably to be placed in warehouses for various reasons such as lack of transport facilities, unfavourable price fluctuations lack of demand etc. The goods in warehouses are naturally exposed to a great many risks such as theft, fire and other forms of accident of which fire is the most important. The fire insurance policy safeguards the interests of the wholesaler or the warehouser against any loss of the goods by fire. In the absence of fire insurance, businessmen would have been put to an incalculable financial loss

which would in some cases resulted in stopping of the business operations

4. **Accident Insurance** :

The mechanisation of modern commerce has considerably increased the possibilities of delays in distribution to consumers due to accidents, e.g., the motor vehicles used for the distribution of goods are likely to meet with accidents and under these circumstances the insurance company agree to indemnity the wholesaler or retailer for such losses.

Insurance *vs.* Assurance :

General usage do s not make any distinction between these two terms which are indiscriminately used for each other. A distinction may, however, be drawn between them so that the word "assurance" would be restricted to contracts of insurance relating to life and the word "insurance" to all other forms of insurance contracts. The basis of this distinction lies in the certainty or uncertainty of the event against which the protection is sought. This distinction is, however, not strictly observed particularly in America where the word 'insurance' is more popular with businessmen.

Before the study of actual insurance can be undertaken, it is necessary to estimate the different types of, risks occurring in business and the magnitude of loss resulting from them.

BUSINESS RISKS

The present economic society is regarded as dynamic or ever-changing. The concept of risk in its fundamental aspect must be associated with this phenomenon of constantly changing society. Modern business is liable to many risks or possibilities of loss arising from a number of sources. There possibilities cannot be anticipated with certainty and herein comes the need of insurance

The extent of risk in modern business is considerably large because production is undertaken in anticipation of demand and there are many uncertainties.

Various types of business risks may be broadly classified as follows ;

1. *Price fluctuations* . This is probably the most important source of risk against which businessmen have to protect themselves. Every commodity is liable to price fluctuations and the more unfinished a commodity, the greater is its liability to price changes. The various factors influencing prices are : changes in consumer's tastes, changes in the supply of a commodity, changes in the purchasing power of the population, changes in the state of business psychology etc.

2 *Changes in Quantity and Quality* · Business risks may also arise from factors that affect the quantity and the quality of the goods e.g. agricultural production is open to risk of crop or livestock disease, uncertainties of weather, vagaries of the monsoon, floods etc The physical quantity of the goods may also be affected by fire, shipwreck accidents etc.

3. *Credit Risks* When goods are sold on credit, the seller undertakes a risk in regard to the solvency of the buyer. This type of risk increases with the distance between the buyer and the seller. If the goods are sold across the counter, this risk is eliminated. This risk is sometimes minimised by the employment of agents who will guarantee payment by purchasers of goods.

4. *Exchange Risks :* When business transactions involve payment for the goods in a foreign currency, it exposes merchants to the risk arising from fluctuations in foreign exchange rates. This has assumed particularly great importance in recent years owing to the chaos and confusion of world currencies.

5. *Changes in Consumers' tastes*. Every businessman is confronted with this type of risk which renders his stocks obsolete and for that reason unsaleable Consumers generally prefer new types of commodities to satisfy the same want and businessmen must protect themselves from this risk.

6. *Risk of Competition*. A monopolistic businessman has to provide himself against this type of risk. Even competitive business enterprise has to contend with the possibility of additional capital being diverted to the industry and the consequent fall in prices and profits.

7 *Technological Risk*: This type of risk arises from the discovery of new processes of production or the adoption of new technical equipment. This type of risk compels the businessman to discard his plant and machinery and thus imposes heavy expenses for new equipment.

8. *Risk of Substitutes*: This type of risk brings substitutes for old commodities on the market and makes it difficult for businessmen to dispose of their old stocks.

9. *Risk of State Interference*: This type of risk involves the control and regulation of private enterprise by Government. This is generally accompanied by the fixation of maximum price, limitation of profits, and other forms of state interference, designed to restrict the acquisitive motive of commercial enterprise. This has assumed great importance in recent years.

Control of Risk:

This is probably one of the vexatious problems of modern commercial enterprise. It is of course impossible to eliminate risk from business. In fact risk is so co-existent with business that risk-bearing is regarded by some as an independent factor of production. It is

however possible to reduce the amount of risk involved in business and we shall now examine the various methods adopted by businessmen either to reduce risk or to transfer it to some other person.

It must be borne in mind that it may not be possible to indemnify a person for all the risks mentioned above The degree of uncertainty or fortuitousness in different types of risks and the degree of estimation of loss also varies considerably. For example, whilst it is possible to estimate with a fair degree of accuracy the loss resulting from fire, shipwreck etc , the money equivalent of loss of human life cannot be ascertained. Moreover, the non-availability of adequate information essential for a systematic undertaking of the risk may also render insurance impossible in such cases.

The following methods of controlling risk are common —

1. Business risk might be considerably reduced by the diffusion of business information over as wide an area as possible. Accurate market information tends to reduce market risk. The information should relate not only to present trend of prices but also to the future ones, so that manufacturers and dealers can enter into transactions with a greater degree of certainty than at present We have already studied the various channels for the distribution of market information.

2. *Future Contracts :* This is another method of controlling .business risk. It consists in entering into a contract at present for the delivery of goods at some specified date in future at a price agreed upon at the time of the contract. This method is particularly useful to manufacturers because it protects them from the uncertainties of price fluctuations of raw materials and

enable them to plan their production more accurately.

3. *Hedging*: This is another device of minimising business risk It consists of two future contracts entered into by the same businessman simultaneously with two different parties, one for the purchase and the other for the sale of a specified commodity at some future date. Hedging thus considerably reduces the extent of loss. For example, a cotton manufacturer might enter into a future contract for the purchase of raw cotton and simultaneously for the sale of cotton manufactures at fixed prices. Under this arrangement the cotton manufacturer is protected from a rise in the price of raw cotton and from a fall in the price of cotton manufacturer. Hedging is of great significance in foreign exchange business in which every broker, must balance his purchases and sales in order to safeguard himself from a possible loss arising from exchange fluctuations.

4. *Insurance:* This is another important method of controlling and transferring risk of business enterprise, The businessman transfers his risk to the insurer by paying periodically an agreed sum as premium. There are three main types of insurance useful in business, *viz.* life insurance, marine insurance, and fire insurance.

DIFFERENT TYPES OF INSURANCE

Distinguishing Features: The distinction between life insurance and other forms of insurance is that, firstly life insurance makes the insurer liable to pay a specified sum of money upon the death of the insured irrespective of the actual loss occasioned by such death. Life insurance is thus not a contract of indemnity like marine insurance and fire insurance contracts, according to which the insurer has to indemnify the insured for the actual loss sustained

of an increase of premium if he feels that the goods are exposed more than before to the specified danger. e.g. if a godown is situated near a boiler of a mill etc.

Then again, certain clauses which are common in life insurance are not common either to fire or marine insurance e g. in life insurance, there are no such clauses as those of indemnity, subrogation, arbitration, or cancellation which are generally found in fire and marine insurance. As between fire and marine insurance, the touch and stay clause, the sue and labour clause, particular and general average clause which are found in marine insurance are not found in fire insurance, which contains re-instatement clause, salvage clause, contribution clause uncommon to marine insurance policies. While marine insurance is being guided by international rules such as the York Antwerp rules, life insurance is guided entirely by the law of the land. Some clauses, however, such as those making it compulsory for the parties to disclose all material facts to each other and the pre-requisite of insurable interest are common to all the three forms of insurance ; but in the case of life insurance, the persons having insurable interest are different from those under fire or marine insurance.

The procedure for effecting the three forms of insurance also differs from one another e g. a medical examination is compulsory in life insurance but is impossible in fire or marine insurance. Then again the insured can obtain a loan against life and fire insurance policies but not against marine insurance policies. Whereas life insurance policy can be surrendered by, the insured to the insurer, who is thereby discharged from the insurance contracts, no such option attaches to the insured in the case of fire and marine insurance. The

various kinds of policies under the three forms of insurance also differ from one another considerably, e.g. whilst there are valued, unvalued and floating policies in marine and fire iusurance, the value of the life insurance policy is determined beforehand.

LIFE INSURANCE

A contract of life insurance may be defined as an agreement between two parties whereby one of them, called the insurer, undertakes to pay a definite sum to specified survivors in ths event of the death of the other party called the insured. The insured on his part agrees to pay a specified sum called the premium at stated intervals.

Fundamental Principles

The fundamental principle underlying the sociological aspect of life assurance is that members of society should contribute to a general fund out of which the surviving members of individual families can be compensated for the death of one of their members. The business of life assurance is based on the law of probability relating to mortality amongst the people. The rate of mortality can be calculated by actuarial methods with the help of mortality tables which are compiled after carefully classifying a detailed data relating to the habits of life, nutrition, average longevity of life of a number of persons over a number of years, etc

Life assurance contracts, like other forms of insurance contracts, are based on the principle of Good Faith or *Uberrima fides*, that is to say, the parties to a life assurance contract are bound to disclose all the material facts within their knowledge. Failure to do so makes the assurance contract null and void. The ordinary principle of *Caveate Emptor* applying to forms of contract under which the contracting parties should not

merely cheat each other but can withhold any material information and the buyer of goods must take the goods on his own responsibility, does not apply to life assurance contracts.

The principle of insurable interest which is common to all other forms of insurance, also applies to life assurance contracts. Generally, a person is supposed to have an insurable interest in the physical object if he bears such a legal relation towards it that he is likely to gain by its existence and to be involved into a loss by its non-existence. There is a definite time only at which a person is supposed to have an insurable interest and this varies in different types of insurance e.g. in life assurance contracts, a person is supposed to have an insurable interest at the time of assurance and not necessarily at the time when the claim under a policy is made. In marine insurance, on the other hand, a person is supposed to have an insurable interest only at the time when the loss occurs. In fire and accident insurance insurable interest may exist both at the time of insurance and at the time of loss.

In life assurance contracts, the insured must have an insurable interest in the object of insurance. The following persons are supposed to have insurable interest in life assurance contracts; a. A person has an insurable interest in his own life. b. A wife has an insurable interest in her husband's life aud *vice-versa.* c. A creditor in the debtor's life to the extent of the debt. d. A surety in the life of the principal. e. A trustee in respect of the object of trust. f. A partner in the other partner's life. g. A company in the lives of its "key" employees such as managers, or technical staff.

Surrender Value :

If after the policy is taken, the assured desires to

cancel the insurance contract, the assurance company is willing to dissolve the contract by paying him a certain part of the premium accumulated against the policy. The sum so paid is known as the surrender value of the policy, which is arrived at after deducting from the total premia paid, allowances for risk and overhead charges The surrender value is different in the case of different types of policies and increases with the number of years during which the policy is in force. Some companies guarantee minimum surrender value whilst others even endorse the periodical surrender values on the policy itself

Loans :

Assurance companies generally grant loans to their policyholders against the first mortgage on the policy. The amount of the loan is generally less than the surrender value of the policy and the rate of interest it generally somewhat less than the current rate for firss class mortgages.

Assignment :

The assignment of a life assurance policy can be made by mere endorsement of the assignee's name on the po icy. Sometimes, however, a separate notice of assignment has to be given to the company which records the same in a separate register. The sanction of the assurance company is not quite necessary but there must be complete agreement between the assignor and the assignee.

Procedure of Assurance

Any person who wants to insure his life must fill in a form known as the proposal form which contains many questions asking for the most detailed information about the person's health, his habits of life etc. He must answer all the questions correctly and fully.

The proposal form is then submitted to the company which ascertains from a classified index whether any previous proposal was made in regard to the life in question. If no previous proposal has been received, the company invites reports known as "Friend's Report" from those persons whose names are mentioned in the proposal form as being intimately acquainted with the proposer. Further, the company calls upon its agent concerned to submit a confidential report in regard to the proposal and also requests the proposer to present himself for a medical examination before the company's doctors. In some cases the company may insist upon a report from the medical attendant of the proposed life. The company scrutinises all these reports very carefully and if after fully taking into consideration all the relevant facts and circumstances of the case, it feels inclined to accept the proposal, it sends a formal letter of acceptance to the parties concerned. After this, a properly executed policy under the company's seal is sent to the insured parties.

TYPES OF POLICIES

It is of course impossible to examine all the different types of life assurance policies because there can be any number of them to suit different purposes. The following types of policies are however more common in life assurance business :—

1. *Whole Life Policy (Continued Premiums) :* Under this policy, the assured is required to pay premia till his death when the policy becomes payable. The great advantage of this type of policy is its cheapness, although the continuity of premia is bound to be felt as burdensome particularly in old age when the income of the assured invariably declines. Such a policy is useful to provide for dependents and estate

duties and may be combined with a right to share in the assurance company's annual profits.

2. *Whole Life Policy (Limited Premia)*: This policy is similar to the above policy but for the fact that under this type of policy, the assured is required to pay premia only for a limited number of years after which he can be in the possession of a fully paid up policy This policy has thus an additional advantage that the assured is not required to pay premia in his old age when he retires from active life.

3 *Endowment Policy:* Under this type of policy, the sum assured is payable either at the end of a specified number of years or at death if it occurs before that period This is probably the most popular form of insurance in the business world to-day. The assurance companies generally quote their endowment assurance rates either for specified ages or for a specified number of years. The great advantage of this type of policy is that it not only offers a good channel of investment but also embodies a provision both for the survivors of the assured after his death as well as for the old age of the assured himself. Sometimes, such endowment policies are also issued under a limited premium arrangement. They are useful particularly for the education of children.

4. *Debenture Policy :* Under this type of policy, rhe sum assured for a whole life or endowment purposes retained by the assurance company for a specified number of years during which inrerest a fixed rate is allowed.

5. *Instalment Policy:* Under this type of policy, the insurance company pays the sum assured in periodical instalments, no interest being allowed on the balance outstanding with the company.

6. *Reduced Early Premium Policy* Under this type

of policy, the assured is allowed to pay low premia in the initial few years, usually five, after which he has to pay enhanced premia This is usually attached to whole life endowment policy and is particularly suitable for young professional men starting their careers with low incomes at present but prospects of higher earnings in the near future.

7. *Half Credit Policy:* Until a few years ago, this type of policy was quite popular Under this arrangement, half of the premium on whole life or endowment policy was allowed to accumulate as a debt at a fixed rate of interest for a number of years.

8. *Term Assurance Policy* Under this type of policy, the sum assured is payable only if death occurs within a specified number of years. If the assured lives beyond the specified date, the policy becomes void and the premia paid are forfeited by the company. The premia for this policy are generally low and may be paid in a lump sum or in periodical instalments. These policies afford maximum protection at minimum cost and are particularly suitable for lenders to insure the borrower's life and for those undertaking travel abroad.

9. *Convertible Term Assurance Policy*: This term assurance policy gives an option to the assured to convert his policy either into a whole life or endowment policy before the expiration of the term, which is usually 15 to 20 years. If the option is not exercised, the policy becomes void. The premia are quite moderate and the policy is particularly advantageous to young men with a bright future.

10. *Decreasing Term Assurance Policy:* This is a term assurance policy which provides for a gradual decrease of the sum assured from year to year. It is very suitable for lenders to insure the borrower's life.

11. *Family Protection or Safeguard Policy:* This type of Policy has been recently introduced and is very useful to provide for the surviving members of the family. It is issued generally for 20 years in conjunction with a whole life or endowment policy and provides for a part, usually 15% of the sum assured, to be paid to the survivors for the remaining years of the term in the case of previous death or after the expiration of the term if the assured services the specified term, after death

12. *Pure Endowment Policy:* This provides for the payment of the sum assured only if the assured lives up to a specified date If death occurs earlier, the policy becomes void and the premia are either forfeited or their surrender value paid by the company. This type of policy is very useful to provide for your son to start business at some future date, or to provide for the payment of dowry for your daughter when she attains marriageable age.

13. *Double Endowment Policy* · This is very similar to ordinary endowment policy with this difference that here the sum payable in the event of the assured's reaching the date of maturity is twice the amount of the sum payable in the event of earlier death This policy therefore combines the ordinary endowment and the pure endowment principles.

14. *Guaranteed Bonus Policy:* Under this type of policy, the insurance company increases the sum assured at a certain rate on the payment of each premium e.g. in the case of a 1% G. B. policy for, say, Rs. 10,000 the company agrees to add Rs. 100 from the outset to the sum assured which therefore amounts to Rs. 10,100 and after the first annual premium is paid, it automatically increases to Rs. 10,200 and so on.

15. *Sinking Fund or Capital Redemption Policy:* This is a pure endowment policy without life contingency and provides for the payment of a specified capital at the end of a specified period.

We discussed above the various types of policies pertaining to single life assurance. As regards assurance on more than one life, there are also many types of policies such as, joint whole of life policy, under which the sum assured is payable on the first death of two or more lives, joint life endowment policy, joint life term policy, last survivor policy, last survivor endowment policy and contingent survivorship policy.

Claims:

Claims under life assurance policy are paid only to those claimants who prove their title to the claim by producing a Succession Certificate, Probate of a Will or Letters of Administration from the prothonotary of the High Court. He must also produce sufficient evidence of the death of assured such as death certificate from the Registrar or a copy of the judgment of the jury if death has taken place by accident or suicide.

MARINE INSURANCE

Marine insurance may be defined as a contract of insurance whereby one of the parties called the insurer or the nnderwriter agrees to indemnify the other called the insurance or the shipper for loss of goods by specified perils of the sea in retnrn for a sum of money called the premium paid by the latter. Thus, a marine insurance contract is a contract of indemnity and might cover either the ship, the cargo or the freight money.

Insurable Interest:

In a marine insurance contract a person is supposed to have an insurable interest if he stands in any legal or equitable relation to the marine adventure or to any

insurance property at risk therein, in consequence of which he may benefit by the safety or due arrival of insurance property or may be prejudiced by its loss or damage thereto, or by detention thereof, or may incur liability in respect thereof In general, however, the following persons may be regarded as having insurable interest in marine insurance contracts —

1. The actual owner of the goods whether he is buyer or seller It is not necessary to be the sole owner. 2 The owner of the ship. 3 The shipper. 4. The consignee of the goods 5. Mortgagee to the extent of the value of the mortgage 6. Master and crew of the ship to the extent of their wages. 7. A trustee or bailee for the goods 8 An underwriter to the extent of his liability in respect of re-insurance.

Good Faith

Like all other forms of insurance contracts, a marine insurance contract is also based upon the principle of the utmost good faith on the part of both the parties to the contract If any one of them fails to act in good faith, the other party is entitled to avoid the contract The insured must disclose to the insurer before the contract is concluded, every material fact and circumstance which is known to him or which, in the ordinary course of business, ought to be known to him.

Implied Warranties:

A warranty is a condition which must be exactly complied with by the parties to the contract whether it be material to the insurance risk or not. A warranty may be either expressed in words in the contract or may be implied. A breach of warranty by any one of the parties to the contract entitles the other to avoid the contract. In marine insurance contracts, there are two such implied warranties namely, seaworthiness of

the vessel and the lawfulness of the marine venture The other less important warranties are that the voyage shall be commenced and completed without unreasonable delay or without deviation from the usual or ordinary course The ship must be properly equipped, manned, supplied and documented and should be reasonably fit to face the ordinary perils of the sea.

Indemnity

A marine insurance contract provides only for a limited amount of indemnity. It is limited to either the value mentioned in the policy or in the case of unvalued policy by the insurable value of the goods The insurable value of the goods may be defined as the prime cost of the property insured plus the expenses of and incidental to shipping and the charges of insurance upon the whole. In the case of particular average, the gross sound value and the gross damage value is found out and the indemnity is calculated in the same proportion. In the case of General Average, where all the interested parties contribute towards the loss "contributory value" forms the basis of indemnity under a marine insurance contract. For this purpose, the net market value at destination is taken i e. factors like customs duties, selling cost, trade discount are not taken into account

Procedure of Insurance:

Whenever a merchant desires to seek protection under a marine insurance policy, he should fill in what is known as the 'slip' which gives the essential details in brief of the insurance contract and submit the same to the underwriter either himself or through the medium of an insurance broker. Although the slip does not possess any legal status in actual business, it constitutes the main basis of all marine insurance contracts.

Another method which is sometimes common is for the merchant to write a letter to the insurance company which in reply accepts the proposal in what is known as a "cover note". Sometimes, merchants also start by asking the insurance company for quotations The underwriter initials the 'slip' and after receiving any further instructions from the assured and after verifying the various details given in the slip with the relative bill of lading, issues a properly executed marine insurance policy under the company's seal. The procedure for insurance under a Lloyd's policy varies in certain aspects and is given at the end of this chapter.

TYPES OF POLICIES

1. *Voyage Policy*. This type of policy covers the goods against marine risks arising during the course of a specified voyage.

2 *Time Policy:* Under this type of policy, the goods are insured for a specified period. This policy is commonly issued for shipowners for hull insurance and for tobacco, cotton, wool, and other commodities while in transit for a certain time.

3. *Block Policy:* This is a special type of time policy particularly common in South Africa, in gold insurance Under this policy, gold is insured from the mines to the port.

4 *Mixed Policy:* This combines both the voyage and time policies so that the risk is covered both for a particular voyage and for a specified time.

5. *Valued Policy*. This type of policy fixes the value of the subject matter of insurance at the time of the insurance contract The indemnity under this policy is fixed with reference to this "insured" value.

6. *Unvalued Policy:* Under this policy, only the "insurable" value of the subject matter is mentioned

and the value for indemnity is ascertained after the occurrence of loss

7. *Construction or Builder's Risks Policy* This type of policy is issued to cover the risk arising from damage to ships under construction.

8. *Fleet Policy;* Under this type of policy, several ships of the same owner are insured against marine risks.

9. *Port Risk Policy*. This policy is issued to cover risks arising from damage to ships while they are in port.

10. *Composite Policy* · The risk under this policy is undertaken by many companies together with one another but with separate liability.

11. *Floating, Open or Declaration Policy* · This type of policy does not mention the name of the steamer, voyage, cargo etc , but generally covers an indefinite interest and is worded, "per steamer and/or steamers", "interest to be declared or valued". This is particularly useful to those merchants who are constantly engaged in export and import business and who want to save themselves from the trouble of getting an insurance policy issued every time a shipment is made. This type of policy may either be valued or unvalued. It can be valued only in the sense that a basis of valuation is mentioned e.g. "invoice cost, freight, insurance plus 20 per cent.

12. *Named Policy* · This is a floating policy in which the name of the vessel is mentioned unlike as in the ordinary floating policy.

13. *Interest Policy:* Under this policy, a definite interest is insured so that most of the authorised marine insurance policies fall under this head.

14. *Honour Policy*. This type of policy is issued

when the insured has a general but indefinable interest in the subject matter of insurance. This policy although issued in insurance business cannot be legally enforced by either party and it is known as "honour" policy because each of them has therefore to rely on the other's honour to fulfill his obligations under the contract. This policy is also know as wager or "P P.I." (Policy Proof of Interest) policy.

IMPORTANT CLAUSES

1. *Touch and Stay Clause* This clause gives the fullest details of the route along which the goods are to be carried Any unwarranted deviation from this route renders the contract of marine insurance null and void

2. *Valuation Clause* This is an important clause in valued marine insurance policies, and states the insurance value of the subject of insurance.

3. *Sue and Labour Clause*. This clause states that in case of loss or misfortune, it shall be lawful for the assured, his factors, servants and assigns to adopt any prudent measures and to incur any reasonable expense for the safety and recovery of the goods to avert or minimise loss without prejudice to the insurance for which the insurance company is liable. Under this clause, the insured is entitled to recover the said expenses from the insurance company. Such expenses may be of three kinds General Average contribution, Salvage charges, and Particular Charges, the last being covered by the present clause. The clause is not optional but lays it down that it is the duty of the assured in all cases to take such measures and to incur these expenses.

4. *Lost or Not Lost Clause* This clause refers to cargo which is already afloat without being insured. If

the merchant subsequently desires to insure the goods about whose existence he has no definite knowledge, he can do so under this clause. He must of course act in good faith This clause may be regarded as a legacy of old times when means of communications were limited.

5 *Waiver Clause* This clause declares that no acts of the insurer or the insured in recovering, saving or preserving the subject matter shall be considered as waiver or acceptance of abandonment That is to say, any such act does not affect the position of both the insurer and the insured i e. it cannot be inferred from such acts that the insured wants to forego or waive the protection under the policy, or that the insurer has accepted such abandonment. This clause is thus an extension of sue and labour clause so as to include both the insurer and the insured.

6. *Running Down Clause*: Under this clause, the shipowner is protected against the risk arising from his being called upon to give compensation for losses resulting from collision with another ship.

7. *Sister Ship Clause*: This clause extends the above principle to salvage charges between ships belonging to the same owner.

8. *F.C. & S. Clause*: This clause (Free of Capture and Seizure) excludes war perils from the marine insurance policy and it has now become customary to delete it.

9. *Strikes, Riots and Civil Commotion Clause*: This clause excludes losses arising from such occurrences.

10. *Frustration Clause*: This follows naturally from the deletion of the F. C. & S. clause and excludes all losses based on the frustration of marine venture, resulting from arrest, restraint or detainments of kings, princes or people.

11. *Deviation Clause* This clause protects the assured from losses arising from deviation from the usual route on payment of a reasonable additional premium

12 *Warehouse to Warehouse Clause* This claess covers risk of damage to goods from the time that they leave the consignor's warehouse till they reach the consignee's warehouse and not exclusively while they are in marine transit as is the case under the ordinary marine insurance clause

13 *F. P A Clause:* This clause (Free from Particular Average) liberates the insurer completely from liability for partial losses or damages except those arising from stranding, sinking. burning or collision of the ship

Types of Marine Losses.

Marine losses may be divided into the following classes·

1. Total Loss. either actual or constructive. 2. Partial Loss or Particular Average Loss and 3. General Average Loss.

Actual Total Loss: This is also called absolute total loss and occurs when the subject matter insured is completely destroyed or so damaged as to cease to be a thing of the kind insured or where the assured is irretrievably deprived thereof. The goods should cease to be a thing of the kind insured e g books may be damped and swollen with sea water so as to be useless for the purpose of reading The goods may be in existence but the owner may be deprived of them e.g. when a ship is captured by an enemy

Constructive Loss This kind of loss in marine insurance occurs when the assured is deprived of the possession of the goods by the peril insured against and it is unlikely that he can recover them or that the expenses of recovering them would exceed the value o the goods

when recovered. Another set of circumstances giving rise to the constructive total loss is when the goods are so damaged that the cost of repairing and forwarding them would exceed the value on arival.

Particular Average Loss: A particular average loss is a partial loss of the subject matter insured, caused by a peril insured against and which is not a general average loss This may result from shipping accidents and may refer to either ship, cargo or freight.

General Average Loss This is probably the most important aspect of marine insurance. In a marine insurance contract the interest of the insurance company, the shipper and the shipowner are combined so that any act commited to preserve the ship or cargo from loss benefits all these parties. It is therefore just and resonable that they should be made to share the expenses of such a general average act in some agreed proportion. The theory and practice of general average gives recognition to this principal

A general average loss may be defined as a loss caused by on directly consequential on a general average act It includes a general average expenditure as well as a general average sacrifice. A general average act occurs when any extroardinary sacrifice or expenditure is voluntarily and reasonably made or incurred in time of peril for the purpose of preserving the property imperilled in the common adventure. The party which incurs a general average loss is entitled to a rateable contribution by the other interested parties This contribution is known as a general average contribution.

York-Antwerp Rules

A marine venture brings the ship into contact with different countries with different practices in regard to

general average. This multiplicity of differing practices and customs gave rise to a lot of difficulties and complications and it was decided in 1890 that all these differing practices of maritime law should be consolidated into a uniform code acceptable to all the nations of the world With this object in view, these rules were framed in 1890 by a conference of all the leading merchants, underwriters and international legal authorities which met at York, Antwerp and Liverpool. In 1924 the rules were amended at Stockholm

Claims

As soon as the insured incurs a loss under a marine insurance policy, he must give a notice of claim to the insurance company. He should give all the correct details in regard to the subject matter insured and also attach the necessary documents to enable the underwriter to obtain a full idea of the damage or loss e g. the relative invoice, a properly endorsed bill of lading and insurance policy or certificate, a copy of Protest lodged by the Master of the ship, and Surveyor's Certificate If any part of the subject matter is in existence, a Letter of Subrogation or if it has been sold, a Bill of Sale must be surrendered to the underwriter In case of partial loss, the underwriter may require a document giving the landing weights of the packages In the case of claims for general average contributions, the Average Adjustor's Statement and the general average deposit receipt should also be enclosed The insured must then lodge a formal claim which is very carefully scrutinised by the insurance company.

FIRE INSURANCE

The Great Fire of London in 1666 gave birth to the idea of fire insurance Under this type of insurance, the insurance company agrees, in return for a premium,

to indemnify the insured for losses arising from the occurrence of fire.

Fundamental Principles :

A fire insurance contract is a contract of indemnity. That is to say, the insurer agrees to reimburse the insured only to the extent of the actual loss suffered by him so that after he receives the amount of insurance, he is in the same position as at the time of issuing the policy. From this follows the principle of subrogation, according to which the insurer, after he has paid the indemnity, can stand in the place of the insured in regard to any claims or rights of action against third parties. Like all other forms of insurance contracts, a contract of the insurance is based on the principles of good faith and insurable interest. The following persons are supposed to have an insurable interest in a fire insurance contract :—1 Owner of goods 2. Mortgagee. 3. Tenants. 4. Bailee or other persons who are placed in charge of goods belonging to others, in any capacity e.g. as repairers, pawnbroker, common carrier and innkeeper. 5. Trustees.

Procedure of Insurance :

The merchant desiring protection under a fire insurance policy must fill in and submit to the insurance company a proposal form. Sometimes, however, this proposal form is dispensed with. The proposer must give a detailed description of the property to be insured to enable the insurance company to quote a premium. The company then inspects the premises through its Inspectors who submit a report on their findings. The report deals with various hazards to which the property is exposed e.g. internal hazards arising from the nature of the property itself, external hazards arising from sources outside the property, and moral hazards arising

from the intentions of the owner of the goods to set fire to the goods The strength of construction, combustibility of the contents and materials, nearness to inflammable materials are a l taken into consideration If on the strength of the report, the company feels inclined to undertake the insurance, an official policy is issued to the insured under the seal of the company.

Types of Policies

1 *Valued Policy:* in which the value of the subject matter insured is definitely mentioned and the insurer is liable to pay only this amount. This policy is particularly useful for insuring valuable articles.

2. *Floating Policy* which covers more than one subject matter e.g. stocks held in different warehouses

3. *Average Floating Policy*. under which the insurance company agrees to pay a rateable proportion or average amount of risk in regard to more than one risk

4. *Declaration Policy* Under this type of policy, a maximum amount which may be at risk at any one time is determined and the insured is required to submit periodical statements to the company regarding the value of the stocks insured and at the end of the term, the premium is adjusted on the basis of these declarations.

5. *Excess Policy:* Sometimes it happens that a merchant who has protected himself under an ordinary fire policy for the normal amount of risk to which his goods are open, feels that sometimes the value of the stocks on hand may exceed the normal holdings. This will not be covered by the ordinary policy, for which reason, he takes out an excess policy which grants protection to him in regard to this excess only. That is why this type of policy is known as " Excess Policy ".

6 *Reinstatement or Replacement Value Policy*. This

policy relates to buildings and machinery but not to merchandise or stock in trade Under this policy, the subject matter is reinstated by the insurer

7 *Consequential Loss Policy* Fire results in loss of not only material things like building, merchandise etc. but also loss of trading facility The ordinary fire policy does not cover this loss of trade through fire and that is why this type of policy is taken out This policy protects the insured from the loss of net profit, payment of fixed charges such as rent, rates and taxes and the higher working expenses which are paid by the insurance company until business resumes its normal course

Claims :

Whenever a fire takes place, the insured must immediately give a notice to the insurance company. After receiving the notice, the insurance company appoints assessors and surveyors if necessary to find out the extent of damage. A report is prepared and the insured is called upon to submit a formal claim to the insurance company If the company feels that there is a genuine claim for loss or damage arising directly through fire, it pays out the same to the insured.

LLOYDS

A Brief History :

Lloyds is the name of one of the most eminent underwriters of the world It originated in a coffee house which is reported to have been kept by one Edward Lloyd in Lombard Street in London about the year 1689. This coffee house was visited by prominent insurance businessmen and they found it convenient to carry on marine insurance business here Even after the death of its proprietor in 1713, the coffee house carried on his name. In 1774 under the influence of

Angerstein, the Lloyds moved into the Royal Exchange and remained there until 1838 when the fire destroyed the premises Later on, through the efforts of Joseph Marryat, M. P. the Lloyds were incorporated by an Act of Parliament, known as Lloyds Act of 1871 which restricted their activities to marine insurance But by the Lloyds Act of 1911, they were empowered to carry on business in all types of insurance except life insurance The Lloyds have flourished since then until to-day when the name Lloyds has become the hallmark of prudent conservatism and remarkable integrity of insurance business and the Lloyds agents have spread into the remotest parts o the world

Procedure of Insurance

Every business with Lloyds underwriters must be transacted through authorised brokers who receive their remuneration from the underwriters by way of a reduction of premium which the brokers undertake to pay. The brokers write on a 'slip' the subject matter of insurance, the name of the steamer, the voyage, time and the risk against which protection is sought. The broker either himself puts down on this slip the premium he is willing to pay or leaves it to the underwriter. The underwriter then notes the amount of insurance to which he is willing to subscribe and if that is inadequate, the broker moves the slip from one underwriter to another until the required amount of insurance is completed It is this feature of the distribution of risk over many underwriters which distinguishes a Lloyds policy from the ordinary insurance policy issued by insurance companies. The great advantage of Lloyds is its cheapness because if a large amount of risk were shared by ordinary insurance

companies, each one would charge a high premium to cover risk of default by others This is not the case in Lloyds policy because all the underwriters being members of Lloyds have equal status in each other's eyes.

Suggestions for Further Reading

GENERAL

1 Frederick W. S. Poole · *The Marine Insurance of Goods.*

2. Taylor H. H. and Tylor V W. · *Life Insurance.*

3. S. E Thomas *Commerce—its Theory and Practice, Chap 46*

4 J. Stephenson *Principles and Practice of Commerce, Chaps. LIX and LX.*

5. 20th Century Business Practice *Vol. VI Chaps. I-IV.*

6 Encyclopaedia Britannica *Articles on Insurance, Marine Insurance, Fire Insurance, Lloyds*

7. Encyclopaedia of Social Sciences *Risk* --Do--

INDIA ·

1. Ray . *Life Insurance in India*

CHAPTER VI

MERCANTI HOUSES

MERCANTILE houses play a very important part in the machinery of modern commerce. By interposing themselves between the manufacturers on the one hand and the consumers on the other, they facilitate a quick distribution of goods and services The need for the existence of these institutions is particularly felt in those countries where production has become highly specialised and an equally specialised distributive machinery is required In those countries, on the other hand, where large scale production has not assumed as gigantic a scale as above, the number of consumers to be served is comparatively limited and the machinery for the distribution of goods need not be very large and the agencies for distribution need not be highly specialised.

This mercantile houses have become so indispensable for the organisation of modern commerce that there is no country in the world without them The great importance to a country of wide spread mercantile houses can easily be seen from the commercial prosperity of countries like Germany and England which have captured the world markets in almost all the commodities of world commerce. These mercantile houses

undertake a very careful study of the market, the psychology of the consumers, the potentiality of demand and thus render invaluable assistance to push a commodity into any particular market They carry on an extensive publicity and propaganda to make a particular product known to consumers and also send out salesmen all over the country. The utility of mercantile houses is particularly felt when a manufacturer desires to capture a foreign market about which he is himself quite ignorant. Under these circumstances, the mercantile houses perform the very valuable function of the diffusion of market information,

TYPES OF MERCANTILE HOUSES

In general the following types of mercantile houses are common in practical business · 1, Wholesaler. 2. Retailer. 3. Departmental Store-Mail Order Business. 4. Multiple Shop. 5. Commission Agent. 6. Broker. 7. Del Credere Agent 8. Auctioneer. 9. Underwriter 10, Warehouser. 11. Clearing and Forwarding Agent. 12. Indent Houses. 13, Stevedore. 14. Shipping Companies. 15. Banks. and 16 Insurance Companies.

We shall examine the different functions performed by these different types of mercantile houses in practical business.

1. Wholesaler ·

A mercantile house carrying on wholesale business acts as an important intermediary between the manufacturer and the retailer. The wholesaler keeps the manufacturer informed about the tastes of consumers. He purchases goods from the manufacturers and sells them to retail merchants Sometimes, the wholesaler buys on his own account when prices are low and sells when they are high. Many wholesale mercantile houses

are also engaged in export and import business Whole salers in general may be divided into two classes a Those acting as the sole distributing agents of the manufacturers and b Those purchasing from different manufacturers and selling them to the retailers on their own initiative.

The wholesaler sends out travelling salesmen to collect orders from retailers and passes them on to the manufacturers who is thus saved a considerable amount of trouble in securing orders These huge orders enable the manufacturer to realise the economies of large-scale production Probably the greatest service which the wholesaler renders to the manufacturer is to make it unnecessary for the latter to hold large stocks and thus to keep his capital locked up in them.

In his dealings with the retailer, the wholesaler also performs some valuable functions. He places his expert knowledge of the market at the disposal of the retailer and in many instances makes financial assistance available to the retailer by way of credit, against the goods sold to them The wholesaler makes it unnecessary for the retailers to carry any large stocks on hand and thus liberates a part of the retailer's capital for more purchases.

Organisation :

The organisation of wholesale mercantile houses differs considerably from one house to another But generally, the wholesaler has a purchasing department, invoice department, sales department, publicity department, despatch department and a warehouse in which the stocks are held.

The modern tendency of buyers to prefer branded goods to unbranded ones has reduced the margin of profit of wholesale business and the wholesaler is gradually restricting himself to unbranded goods.

2. **The Retailer :**

The retail trader is the most common type of mercantile house with which people are more familiar than with the rest. The retailer renders valuable service to the community. While the wholesaler sells large quantities and acts as an intermediary between manufacturers and retailers, the retailer on his part sells small quantities and intervenes between the whole saler on the one hand and the consumers on the other. The retailers establish themselves in the midst of consumers and set out to obtain goods that are demanded locally. They carry goods to the consumers and endeavour by display and salesmanship to create a demand for them They serve goods in the form and quantity desired by the consumers. They generally assist consumers to make purchases by granting credits and accepting payment in instalments. Retailers like the departmental stores give a complete service to the consumers by fulfilling all his requirements and thus save him the trouble of moving from one shop to another. Sometimes, they also render additional services, by providing restaurants, writing rooms, savings banks, inquiry offices, music rooms, hair dressing saloons etc. The mail order type of a retail house enables the consumers to get the goods at their feet, and also saves the middleman's profits, and reduces the ultimate cost. It also ensures prompt delivery of the goods to the consumers. Some retailers purchase on a huge scale and spread orders ahead in anticipation of sales and thus enable the manufacturers and the wholesalers to reduce their cost of production and distribution respectively. The retailing of products on a large scale in recent years has resulted in specialisation of a group of consumers which is catered for only by particular retailers. This

has resulted in a standardisation of the price which the buyers have to pay

Organisation·

Every retail business house must keep an up-to-date and accurate record of daily purchases, sales and stock on hand Similary, the payment made by the customers across the counter should be properly receipted and an accurate record of all sales made on credit should be kept. The organisation of the retail house should be such as to be conducted with a minimum amount of overhead cost. For this purpose, even an expansion of the retail unit may be found to be necessary. Retail mercantile houses may be organised either on a horizontal or a vertical scale. In the former case, the retail shops sell a commodity only at particular stage of its manufacture while in the later case, the retail organisation might have under its management all the different stages of manufacture from the production of the raw meterials to the manufacture of the finished goods.

Principals of Success:

The first thing that a retail shop-keeper must bear in mind is the location in his shop The shop should be situated in a very prominent place. The premises should be well illuminated. The shop-front should be so designed as to attract customers In regard to the goods to be stocked inside the shop, a retailer must exercise the most careful judgment. He should study very minutely the trend of consumers' tastes and stock only those commodities which can be sold within a comparatively short time. Only a long experience and a keen foresight can teach a businessman what to stock The stock must be made flexible and the retailer must equip himself with adequate quantities to satisfy seasonal demand.

Display is a very important aspect of retail trading and the retailer must exhibit his goods in shop windows in a very attractive manner.

Salesmanship is probably the foundation on which the structure of retail mercantile houses is raised. The retailer should therefore, be very careful to employ expert, experience and efficient salesmen behind the counters. The sales staff should be trained in many lines so that it can be transferred from one department to another when sales in a particular line are slack. The retailer should maintain at any cost a personal element in his sales policy towards his customers. He must plan his business to the minutest detail and try his utmost to work to this plan. Furthermore, he should spare no efforts to make his shop known to the public by an extensive publicity propaganda. The goods must have their prices properly marked upon them so that they could be very promptly and accurately quoted. And above all, the retailer must be a man of unquestionable integrity charming personality, a close study of human nature, and must be thoroughly acquainted with every detail of his business.

3. **Departmental Stores;**

A departmental store is only a retail mercantile house operating on a large scale. It may be regarded as many retail shops dealing in different commodities belonging to the same proprietor and carrying on business in the same place. The departmental store consists of many departments such as drapery, millinery, toys, etc. so that the customers, once they enter the departmental store, can satisfy all their requirements without being put to the trouble of moving from one shop to another. The limitations of expansion of retail business combined with the extensive development of

transport facility and the rapid progress made by the technique of advertising have all contributed to the development of departmental stores on a wide scale. The swift developments in mechanical devices and the world-wide adoption of large-scale production have emphasised the necessity of diversified retailing Gradually, the shop keeper broadened the scale of his operations to such an extent as to be able to sell something of everything to his customers The departmental store has been one of the most outstanding recent developments in the business world in almost all the western countries.

Organisation :

The actual organisation of a departmental store differs according to the magnitude of its operations and the type of business. But generally, a Managing Director is at the top of a departmental store and he is assisted by General Managers who have under them the Managers of various departments comprising the store Generally, a departmental store is run on a joint stock basis and in this case, the general management of all the affairs of the store is vested in the Board of Directors. The Departmental managers are the most responsible people in the life of the departmental store because it is they who decide the size, type etc of stocks that should be held. These persons must therefore, be of undoubted foresight and judgment because a slight miscalculation might involve the store in heavy financial losses. A departmental store has generally to tackle problems pertaining to buying and selling of goods, management of staff, upkeep of the store, publicity, accounting and finance. The departmental managers have under them a staff of expert salesmen who may be regarded as the custodians of the

business reputation of the store because it is on their attitude towards the customers that the success and popularity of a departmental store mainly depend. A departmental store has also an Accountancy Department in which a detailed and accurate record of all financial transactions is kept,—a Cash Department where payment is made and received and a Despatch Department which attends to the home delivery of the goods purchased in the various departments. The leading departmental store in Bombay city are the Bombay Swadeshi Co-operative Stores, Whiteway and Laidlaw and Army and Navy Stores

Advantages:

The departmental store gives very good service to the customers. Moreover, it saves the customers the trouble of moving from one shop to another A departmental store very often creates a demand for a commodity because when the customers who enter the store to purchase a particular commodity only are induced to purchase other things also when they see them displayed in the various departments of the store The prices of the departmental stores should be lower than other retail shops because of the economy of large scale buying and selling.

Disadvantages:

The departmental store fails to introduce a personal touch into its operations because of the large number of customers at one time. The expensive services provided by the departmental store and the huge amounts spent on publicity inevitably lead to enormously heavy overhead costs which may be regarded as a source of weakness in the working of a departmental store particularly in times of business depression. Another disadvantage of a departmental stores is the unduly

large variety of goods which more often results in confusing the customer and fails to fix his attention on any one type of commodity. Furthermore, the large variety of stocks of different commodities becomes a burden upon the store particularly when prices are falling and demand is declining.

Mail Order Business ·

This type of business is conducted mainly through the post office. This may be regarded as " shopping by post " and has made a tremendous progress in recent years particularly in the U.S.A. where shopping facilities are restricted only to the large towns There are many types of mail order business houses, namely, the manufacturer himself undertakes selling through the medium of the post office · the departmental store may have a separate mail order department and thirdly, where mail order business is conducted as a middleman's service.

Method :

The goods are advertised by means of press advertisements, mailing of price lists, catalogues etc. and also sometimes by sending travelling salesmen. The inquiries and orders for goods are recorded in a cardindex. Follow-up letters are sent to all these prospective customers and when orders are received, they are properly sorted and fulfilled. The manner in which payment is received in mail order business is by sending the goods by V.P.P. or by insisting that a part or whole of the price of the goods be sent along with the order.

Principles of Success :

The principles for the successful operation of a mail order business is the ability of the goods to satisfy the customer's demand. The goods must be generally of a standardised type and must lend themselves easily to

attractive pictorial representation. Probably, the most important pre-requisite for a mail order business is the ability to insert attractive advertisements so as to draw the attention of prospective customers and to create confidence in their minds. Finally, the mail order trader must be a man of remarkable judgment and business prudence having full trust both in himself and his customers.

Advantages

The overhead costs of retail trading like expenses of display, salesmanship etc. are largely eliminated in this type of business, and the amount of capital required is also small. Moreover, the selling of goods is reduced to a convenient routine. It offers another advantage to customers in the form of instalment system of payment. The mail order business makes it easier to control publicity expenses because, the results of the same can be more specifically checked The problem of location and position of mail order house does not offer much difficulty and the consumers are enabled to order goods from their houses without having to make a journey to a shop. The risk in mail order business is also comparatively small.

Disadvantages :

Since the goods are bought through the post office the customer is not in a position to examine the goods before purchase and as the advertisement invariably emphasises only the good points about the commodity, the customer might be disappointed when he actually receives the goods. The cost of mail order publicity is ultimately recovered from the consumers who have thus to pay a higher price for the goods than if they had purchased them directly from a shop The absence of personal touch is a great drawback of this method.

A considerable amount of waste both of material and labour occurs in this type of business The number of people who order the goods is very small compared with the number who receive literature and descriptive booklets

4. **Multiple Shop** :

Under this type of business, many shops or branches dealing generally in a particular type of a commodity are operated by the same proprietor This is also called a "chain store" business. The rapid progress made by multiple shops in recent years in some of the western countries is a distinct proof of the valuable and efficient services which they render to their customers A desire on the part of manufacturers and retailers to monopolise certain areas or certain commodities has also hastened the development of multiple shop system. Specialisation of goods is not always common and many multiple shops are found which deal in a wide range of goods When extensive rather than intensive development of retail business is demanded, the multiple shop system offers probably the most useful and profitable scheme The great principle behind this system is centralised stocking and management and decentralised distribution

The class of goods which renders itself very easily to the multiple shop system is that consisting of goods of daily consumption so that a large turnover of sales may be effected with consequent reduction in the cost of selling and administration It is more profitable for multiple shops to specialise in a certain line consisting of standardised commodities Then again, the goods in a mutiple shop system must be such that they can be transported very easily from one shop to another to bring about an equitable distribution of stocks The

goods must be such that the demand for them is constant and not fluctuating from time to time.

Organisation

Generally, multiple shops are operated and managed from a central place. The various branches are worked by branch managers who are directly responsible to the head office. The branch managers must act strictly according to the instructions from the head office. The branches are supplied with stocks by the head office , but sometimes initiative in buying is given to the branch managers. The branches have to send periodical statements of their sales, stocks, requirements, accounts, etc., to the head office. These branch returns serve as the basis of business policy to the head office. Generally, a multiple shop has the following departments: (a) Purchasing Department, (b) Warehousing Department, (c) Sales Department and (d) Estate Department The purchasing department is entrusted with the task of finding the requirements of different shops and obtaining the necessary supplies. The warehousing department is concerned with grading and packing of the goods, storage, and despatch of the goods to various branches. The sales department has to look after matters like publicity, control and administration of branches and has to explore the possibility of establishing new branches. The Finance department deals with all cash transactions, manag - ment of staff, maintenance of accounts, costing, statistics, filing etc. Generally, the multiple shop system is organised on a cash basis.

Advantages :

The multiple shop system realises all the economies of large scale operations. The centralised control and management results in a considerable economy and

efficiency. For the distribution of standardised goods over a large area, the multiple shop system offers probably the most suitable means The shops are situated very much near the consumers with the result that they can study very carefully their needs and also render them prompt advice and effective service. Furthermore, as the business is done on a cash basis, bad debts are eliminated to a large extent, and thus the ultimate cost of selling is considerably reduced Then again, the branches serve as an important source of publicity to the concern as a whole. As most of the multiple shops specialise in a few lines, they help to focus the attention of the customers on a few goods and thus make their sales appeal more effective.

5. Commission Agency House :

This type of mercantile house is generally employed to transact business on behalf of others in return for a commission. It is employed mostly by manufactures to distribute their products in foreign markets.

6 Broker

This type of mercantile house is concerned with establishing contact between buyers and sellers. It is required only to negotiate business transactions. It sends bought notes and sold notes to the parties concerned when the transaction is complete, and then sends bill for its commission charges A great amount of specialisation has taken place in this type of business in recent years e.g there are produce brokers, stock brokers, freight brokers, insurance brokers etc.

7. Del Credere Agency House

This type of mercantile house is generally combined with commission agency and is called upon to guarantee the solvency of the customers who purchase the goods from it on credit. If they fail to pay, the house is

liable to reimburse the principal for the same. These are generally paid an additional commission for giving this guarantee and this is known as "del credere commission"

8. **Auctioneer :**

He is entrusted with the auction of goods placed in his custody.

9. **Underwriter ;**

The mercantile houses engaged in underwriting business have to guarantee to the promoters of a company that they would themselves take up the shares of a new venture if the public do not take them up. These render a valuable service to the floatation of new business ventures and the commission which they receive is known as "underwriting commission," New ventures are thus placed in the possession of funds by the underwriters who then have to attempt to sell the shares to the investors. In India, where there is a great need of extensive business enterprise, the utility of underwriting houses is undoubtedly great. Sometimes, the underwriting houses are organised on a consolidated scale and are known as "underwriting syndicates." These are very common in the U S. A.

10. **Warehouser:**

He is placed in the custody of goods for the purpose of storage and is expected to exercise reasonable care and diligence while the goods are in his possession.

11. **Clearing and Fowarding House:**

These are firms of agents who are engaged in clearing the imports and forwarding them to their destinations, on behalf of their principals particularly in the mofussils, They also undertake to secure freight for exports and arrange to send them to their ports of

on to the wharf and give delivery of the same to the importers according to the instructions of the steamship agents. As regards the export cargo, they have to load the goods into the steamer according to the stowage plan and also obtain Port Clearance for the steamer from the Customs Authorities. Sometimes, they are also responsible for the victualling arrangements of the ship and the crew. The important firms in Bombay who perform stevedoring functions are Messrs. Ardeshir B Cursetji & Sons, Messrs Hill Son, and Knox and others.

14. Shipping Companies:

In India the shipping companies engaged in foreign trade are invariably non-Indian particularly British. The organisation of these mercantile houses consists of a Freight Department, Bills of Lading Department Delivery Orders Department, Passengers Department and Accounts Department. The Freight Department is concerned with the allotment of space in the steamer to the various shippers ; the Bill of Lading Department has to issue properly signed Bills of Lading to the merchants while the Delivery Order Department has to issue signed Delivery Orders to the consignees for goods discharged by their steamers. Firms like Mackinnons, who also undertake ship repairs business, have a separate Docks Department for the purpose There is sometimes also a separate Department known as the Manifest Department which is entrusted with the work of preparing cargo manifest. Some of the shipping companies in Bombay are, Messrs. Mackinon Mackenzie & Co acting as agents for the P. & O and the B.I.S.N. Companies; and Messrs. Forbes, Forbes Campbell & Co. Ltd., and Messrs. Anchor Line Ltd.

15. Banks:

This is another type of mercantile house common in

the modern business world. Banks accept doposits from the public and out of these, they make loan and advances to commerce and industry They also discount bills of exchange and thus facilitate the national and international movement of commodities. Most of them are also engaged in the business of remitting funds from one place to another by means of bank drafts The banking houses are generally organised on a joint stock basis The internal organisation of banks generally consists of Savings Department, Inward Bills Department, Outward Bills Department, Loan and Advance Department, Securities Departments Cash Department, Foreign Exchange Department and Accounts Department The Savings Department deals with the deposits and withdrawals of money, the Inward Bills Department is entrusted with the collection of bill, of exchange on the date of maturity, the Outward Bills Department discounts bills of exchange pertaining to exports, the Cash Department looks after all the receipts and payments on behalf of the bank, while the Accounts Department keeps a detailed record of all the financial transactions of the bank.

In India, the banking houses may be divided into three main classes: a Foreign banks, dealing mostly in foreign exchang buisness ; b. Indian banks which have restricted themselves to internal banking business and c. Indigenous Shroffs and moneylenders. The first class of banks have generally the following departments Outward and Inward Bills Departments, Exchange Department, Mail and Cable Transfers and Drafts Department, Cable Department and Credits Department. These banks are mostly non-Indian particularly British and the names of some of them doing buisness in Bombay are, The Chartered Bank of India, Australia

and China ; the Mercanlile Bank of India; the Yokohama Specie Bank and the National City Bank of New York. The names of some of the Indian banks in Bombay are : the Central Bank of India, the Punjab National Bank, Devkaran Nanjee Banking Corporation, and the Saraswat Co-operative Bank Ltd, A host of Indian banks have been recently floated under the stimulus of wartime conditions The indigenous shroffs and money-lenders are very widely spread in the country bnt they lack systematic organisation.

16. **Insurance Companies :**

This is another important type of mercantile house doing extensive buisness in recent years all over the world Their buisness may be divided into the following classes : life, marine, fire, and accident insurance. These houses are generally operated on a joint stock principal and their internal organisation generally consists of the following departments Policies Department Agencies Department, Actuarial Department, Loans Department, Securities Department, Claims Department Cash and Account Departments. In India the insurance companies may be divided into two classes . non Indian and Indian The former undertake every type of insurance business including life, marine, fire and accident, while the Indian companies restrict themselves mostly in life business The names of some of the important non-Indian insurance companies are : The South British Insurance Co., the Sun Life Insurance Company of Canada, while some of the Indian insurance houses are : The Oriental Government Securities Life Insurance Co., The Bombay Mutual Life Insurance Co , Hindustan Co-operative and the Western India Insurance Companies.

MERCANTILE HOUSES IN INDIA

Mercantile Houses in India play a very important part in her foreign trade. They are concerned with bringing together Indian merchants and foreign merchants in order that trade relationships might be established between them. The mercantile houses generally take the form of Indent Firms which receive indents from Indian merchants and pass them on to the foreign manufacturers. The indent firm may be either an export or an import firm, but generally both these are combined in one firm. They carry on business either on their own account or on account of the foreign manufacturers. More often they act as commission agents and receive commission on the transaction. The existence of these mercantile houses in India is explained by the fact that the Indian importer is ignorant of the manufacturers in foreign countries or sometimes his financial standing is not widely known, with the result that the foreign manufacturers are not prepared to give him credit without the intervention of the indent firm. Moreover, the Indian exporters are ignorant of the business conditions in foreign markets. They have, therefore, to obtain the assistance of these firms in this matter. These firms give every type of business information possible and thus facilitate the work of the buyers and sellers both in India and foreign countries. They have connections almost all over the world and this enables them to give sound business advice to their clients. Most of these mercantile houses are non-Indian, with a predominance of British firms which is the result not only of historical evolution but also of the enormous amount of trade which is carried on between India and England.

Methods of Business:

Generally these mercantile houses get in touch with the local dealers either by requiring them to come to their offices or by sending their salesmen to them. Samples of goods are examined by the firms or the merchants as the case may be and an indent form is sent to the foreign manufacturer duly signed by the Indian importer and giving full particulars regarding the goods. The goods are sent on a commission, contract or a consignment basis. When the goods arrive here, the importer is informed about this and is asked to take immediate delivery.

In India the mercantile houses belong to various nationalities and their methods of business also differ greatly from one another. The British mercantile honses, for example, are regarded as rather conservative and are stated to distribute goods in a manner which disregards the peculiarity of the Indian market and the tastes of Indian consumers They feel that good quality is a sufficient passport to marketability and fail to appreciate that the Indian market is essentially a price market, in which consumers purchase commodities more with reference to their income than to the quality of the goods. Recently, however these firms have been compelled under competition from other firms to take a greater interest in such matter of business as advertisement, canvassing, salesmanship and have adopted a more compromising attitude to meet the requirements of the Indian consumer. The general grievance of Indian merchants against these firms is that they give their quotations invariebly in sterling and not in rupees so that the Indian purchaser, being more familiar with his own currency, does not obtain an adequate

idea of the value of the goods. In regard to the period of credit also, it has been reported that these firms do not show any consideration to the Indian merchant under extraordinary circumstances when he may be unable to meet his liabilities in regard to the goods purchased through them. The business of the British mercantile houses is considerably assisted by the existence of the British foreign exchange banks, British insurance companies and British steamship companies in India. On the other hand, the German and Japanese mercantile houses, before the present war, were supposed to present a striking contrast to the British firms in regard to the methods of their business. "Cheapness good business organization and pushful marketing and financial methods constitute Germany's great 'pull' in the Indian market."* They used to send out commercial travellers all over India to study the psychology sentiments and requirements of the Indian consumers. They often quoted c.i.f. prices and their quotations were generally in local currency and this was found by Indian merchants to be a great convenience to them. Furthermore, They granted extensions of the period of credit and showed considerable laxity in the matter of receiving payments. They spent enormous amounts in publicity and pushed their manufactures into the Indian market by many devices, such as the distribution of free samples, etc. They used to supply cheap goods in recognition of the economic conditions within the country and thus had succeeded in capturing the Indian market to a very large extent. The Japanese firms were interested particularly in the purchase of Indian raw cotton for their textile mills. The

*Vera Anstey—*The Trade of Indian Ocean*—Page 75.

German and the Japanese firms adopted all sorts of methods to capture the Indian market such as the dispatch of trade missions perodically to this country and the exploitation of the religious and patriotic sentiments of Indians. At present, however, these firms have ceased to operate because they have been declared as enemy firms after the outbreak of the war and their affairs are now being managed by the Controller of Enemy property appointed by the Government of India.

Indian Mercantile Houses

The great importance of the existence of mercantile houses in the development of a country's foreign trade need hardly be emphasised. The need is particularly great in India to enable her merchants to obtain better prices and to widen their existing market in the world and also to explore new avenues of distributing Indian manufactures in the world market. The existing Indian mercantile houses do not have as many foreign branches as would be justified by the enormous volume of India's foreign trade. Some of the difficulties in this regard are the absence of Indian exchange banks, Indian steamship companies and Indian insurance companies in the important trade centres of the world. The only places where our mercantile houses have extended their activities are Singapore, Burma, Ceylon, South Africa and Aden. These firms are mainly engaged in the exports of Indian cotton piecegoods to these various countries and also imports of sugar and other commodities from the Dutch East Indies. But their methods of business are regarded to be crude and unscientific as a result of which they are unable to stand up against the severe competition of the non-Indian mercantile houses in India.

The problem of stimulating our foreign trade is a problem of great significance to our economic life. Every effort should, therefore, be made to see that the activities of Indian businessmen are spread far and wide and that Indian manufactures are sent even to the remotest parts of the world. The forces which individual efforts in this direction will have to face are so powerful that this can be the work of only an organised and collective body of Indian businessmen such as the Indian Merchants' Chamber. It may, therefore, be suggested that the Chamber should explore all possibilities of enabling Indian mercantile houses to open foreign branches in the important commercial and financial centres of the world. It is not possible in this work to give a detailed scheme but the work can best be done by a committee of the Chamber specially appointed for the purpose

Suggestions for Further Reading

1. S. E Thomas· *Commerce.*
2. J. Stephenson: *Principles and Practice of Commerce*
3. 20th Century Business Practice, Vol. IV. Chaps. III to X.
4. Aiyer N. S. : *Foreign Exchange in India.* Chapter X

CHAPTER VII

COMMERCIAL ORGANISATION

THE establishment of a systematic and widespread commercial organisation has been found to be indispensable for the development of a country's foreign trade. Such an organisation might assume two forms: 1. Private organisations such as chambers of commerce and trade associations and 2. Official Organisations such as Government Departments, trade commissioners and consuls appointed in various countries. e.g. the interests of Indian foreign trade are promoted by the Department of Commercial Intelligence and Statistics together with the Indian Trade Commis sioners in important world trading centres such as New York, Osaka, Milan, Hamburg, London and other places. They carry on investigations with a view to exploring new avenues for the expansion of India's trade and issue periodical reports giving valuable trade information. Similar functions are discharged in England by the Board of Trade and in America, by the United States Bureau of Foreign and Domestic Commerce. In fact, every important country in the world has trade organisation of some kind or other.

The last world-wide trade depression emphasised great importance of such trade organisations whilst the snbsequent need to promote trade relationships amongst

countries belonging to the British Empire has led to a close-knit trade organisation within the British Empire through the medium of institutions like the British Department of Overseas Trade, the British Commercial Diplomatic Service and the British Trade Commissioners, Trade Correspondents and Consular Officers. This tendency for Empire Trade organisation has received great stimulus after the outbreak of the present war and has resulted in the appointment of various official and unofficial bodies such as Purchase Missions, Trade Missions, the British Ministry of Food Supply, the United Kingdom Commercial Corporation and the Export Advisory Councils and Committees in the important ports in India Of all these, the U.K.C.C is the most important and has invited the greatest attention and the most servere criticism. It is therefore proposed to examine the functions of this Corporation along with the various trade commissioner services and Goverenment Commercial organisation in India after which we may pass on to study the private Commercial organisations like chambers of commerce and trade associations.

GOVERNMENT COMMERCIAL ORGANISATION IN INDIA

The Department of Commercial Intelligence and Statistics: This department was established in 1922 and embraces two distinct classes of work · 1. Collection and dissemination of information connected with overseas trade which may be of use to Indian firms and 2. the complication and publication of all-India statistics. From 1933, a Statistical Research Bureau has also been added to the Department Among the important publications for which the Department is responsible are · the Review of the Trade of India Statements of the Foreign Sea-borne Trade and Navigation of British India, Statistical Abstract

for British India; Agricultural Statistics, Estimates of Area and Yield of Principal crops, the Monthly Survey of Business Conditions in India and the Indian Customs Tariff. The department also publishes the Indian Trade Journal which gives valuable information regarding tariff changes in foreign countries which affect Indian interests, notices of tenders for Government contracts, crop reports and forecasts, Government orders, communiques and other notifications affecting trade, analysis of Indian trade statistics, market reports, trade enquiries, and the reports of the Indian Trade Commissioners abroad. The department also administers the Commercial Library and Reading Room located at No. 1 Council House Street, Calcutta. The department works in close co-operation with Directors of Industries and other Government departments in India, with the Indian Trade Commissioners abroad, with His Majesty's Trade Commissioner in India and Dominions and with the Consular Offices in various parts of the world.

The Customs Department:

This department is controlled by the Central Board of Revenue which is attached to the Finance Department of the Government of India. This department administers the tariff policy of India through the Collectors of Customs of the five principal ports of Calcutta, Bombay, Madras, Rangoon and Karachi.

Customs House:

This is the Government organisation entrusted with the charging and collection of customs duties. Its offices are situated on the Ballard Estate At the head of the Customs House is the Collector of Customs, under whom there are Assistant Collectors who are concerned mainly with the more responsible duties of

administration For the daily routine work, the Customs organisation is divided into several departments, the most important of which are (a) The Export Department which passess shipping bills, grants port clearance to ships and receives cargo manifests from the steamship agents. At the head of this department, there is one of the Assistant Collectors (b) Import department which is connected with the passing of Bills of Entries for consumption, receiving import cargo manifests from the steamship agents etc (c) Appraising Department which appraises the goods and levies appropriate duties according to the Customs Tariff. A special set of officers known as Appraisers and Examiners is required to be in personal attendance in the Port Trust Docks where the steamers load and unload cargo. (d) The Preventive Department which is entrusted with the prevention of export or import of unauthorised cargo and this important function is discharged by a set of officers known as Preventive Officers (e) The Cash Department which is entrusted with all cash receipts and cash payments in the course of Custom House, business. All duties on goods have to be paid at the counter of this department. If, however, the payment of duty is to be adjusted through the personal deposit accounts maintained by many firms with customs authorities, then the necessary entries are made by the Accounts Department in their books (f) The Laboratory · to test the ingredients and composition of certain commodities exported or imported. (g) The Controller of Exports and Imports · owing to the outbreak of the present war, a new department has been opened under a Controller of Exports and Imports in order to verify that the goods exported from and imported into India do not help the enemy countries.

Whenever the Indian merchant desires to export any commodity he must submit an Application for *E*xport to this department and obtain the necessary licence from the Commerce Department, New Delhi.

Port Trust:

The Bombay Port Trust is a semi-Government body entrusted with the administration of the Bombay port. It has various department such as Engineering, Railway, Docks, Land and Bunders Departments etc. Whenever a steamship comes to the port of Bombay, the Port Trust has to provide pilots to tow in the steamer and assign particular sheds where the cargo is to be loaded or unloaded. The Port Trust maintains very large sheds serially numbered. where it allows the exporters and importers to stack their packages. The Manager of the Port Trust Shed supervises the loading of cargo along with the Preventive Officers while he gives delivery of the cargo to the consignees along with the Stevedore. The Port Trust provides suitable cranes and coolies for the loading and unloading of cargo at the Port Trust wharf. It also provides warehouses where consignees can store re-export or transhipment cargo, pending the arrival of the on-carrier. It will thus be seen that the Port Trust authority plays a very important role in the export and import of goods.

The Indian Stores Departments:

This department is the outcome of the recommendations of the Stores Purchase Committee and was constituted in January 1922. Its main function is to purchase in India and abroad, in accordance with the Stores Purchase Rules, stores of all descriptions, except, lethal munitions, foodstuffs, medical stores, stationery and few other classes of articles, for the departments of the Central Government and the minor local administra-

tions, and to inspect stores purchased by the Department or by consuming departments direct. Its services are also available to such major local governments, Indian States, Public Bodies, etc. as may desire to avail themselves of the same. The department consists of the office of the Chief Controller of Stores, which is located at the Headquarters of the Government of India purchase circles at Calcutta, Bombay and Karachi; a Test House at Calcutta and inspection agencies at Calcutta, Jamshedpur, Bombay, Madras, Cawnpore, Lahore and Karachi. The Headquarters office, under the direct charge of the Chief Controller of Stores, comprises of an Administration and Intelligence Branch a Purchase Branch and an Inspection Branch. A new organization known as the Industrial Intelligence and Research Bureau has been recently attached to the department as an experimental measure.

Trade Commissioners:

These are also the representatives of foreign countries in India similar to the consuls; but their field of activity is limited only to the trade and does not cover political and social matters like that of the consuls. These trade commissioners also publish periodical reports containing very useful information pertaining to trade.

Consuls:

These are the representatives of foreign countries in India. The consuls collect valuable trade information in India and pass it on to their country. Similarly, they make available to the Indian merchants all information about the possibilities of Indian trade with their respective countries. Some consuls like the American Consul are required to grant Consular Invoices certifying that the goods may be imported into their country

without detriment to their nationals. They also publish periodical reports which are of great practical use to businessmen in India and abroad. No goods can generally be exported to foreign countries without the consular invoice from the respective consuls concerned These consuls charge a small fee, known as the ' Consular Fee ' to the exporters for granting the invoice

Trade Commissioner Services in India·

British trade Commissioner Service. The British Trade Commissioners in India are part of the worldwide commercial intelligence organization of the British Government. The headquarters of this organisation are the Department of Overseas Trade in London which was created in 1917 with a view to stimulating the overseas trade of the U. K. The functions of the British Trade Commissioner, are to collect trade information useful to British merchants, to visit important commercial centres, to issue an annual report on the conditions and prospects of British trade and to give all assistance to British firms within his territory.

The present Senior British Trade Commissioner in India is Sir Thomas M. Ainscough, C B. E. whose offices are situated in Calcutta.

In addition to the above, the other Trade Commissioner Services in India are those of the Canadian Commercial Intelligence Service, the Australian Government Trade Commissioners Service and the Ceylon Trade Commissioner for India.

The U. K· C- C.

This Corporation was established in London in 1940 with capital entirely provided by the British Treasury, with the object of promoting England's trade with the Balkan and Near East Countries. But the difficulties of trade with those countries which arose as a result

of the subsequent developments in the war have compelled the Corporation to divert its attention to trading possibilities with countries like India, Iraq and Arabia. The Corporation has behind it the full support of the British Government and the Government of India and is assisted by the British Minister of Food and War Transport. The Corporation enjoys many privileges in regard to priorities, freight, shipping space, and many other things not available to Indian merchants. It makes huge purchases of goods like wheat, sugar, rice, hides, skins and others through the Supply Department of the Government of India and despatches them to Middle and Near East Countries and also to Russia

The Corporation has been severely criticised by Indians on the grounds that it enjoys almost monopolistic privileges in India's export trade, that its privileged position enables it to secure priorities in railways and steamer freight and that it purchases goods at specially low price through the Supply Department and exports them to Middle East Countries, thus offering unfair competition to Indian exporters and making huge profit which are not retained within the borders of India. The Government of India have, however clarified the functions and the scope of the Corporation's work by a press note which is issued last year Government have pointed out that the Corporation has been brought into existence not for monopolising trade, but for organising it on a basis more favourable to the Allied Countries, because such operations lie beyond the normal trading sphere of private enterprise. It has also been stated that the popular belief regarding the Corporation's monopoly in wheat, sugar, rice, oils and oilseeds and cotton yarn is unfounded and that the Corporation

has trading monopoly only in a limited number of commodities essential for war purposes. Furthermore, it has been asserted that the Corporation makes purchases in the open market thus passing on the benefit to firms of business of well-established reputation in India.

Some critics express the view that India can have no quarrel with an organisation like the U. K. C. C. but by the way in which it has been functioning, it has raised matters of fundamental importance to India both to-day and to-morrow in the post-war period.

CHAMBERS OF COMMERCE AND TRADE ASSOCIATIONS

These are voluntary combinations of business brought about to protect their common interests. There was a time when there was definite legislation prohibiting the formation of such combinations but gradually the need for such organisations came to be generally recognised until to-day when almost all the mercantile nations have chambers of commerce within them. The magnitude of their operations and the sphere of their influence varies in different countries but in al countries they constitute an essential part of the economic life of the country. Chambers of Commerce may be organised either on the Continental model in which there is considerable amount of state interference or on the English model under which they are largely independent combinations. When such a combination of businessmen is restricted to a particular business, it is called a trade association.

Causes of growth:

The desire to adopt collective means to protect mutual business interests has probably been one of the most important factors hastening the development of Chambers of Commerce and trade associations. The rapid growth of these institutions may be regarded as a proof

of the general trend of modern economic society towards industrial and other types of combinations. Another cause that has led to the establishment of these institutions has been a desire on the part of business men to eliminate by association, waste and other evils of competition Furthermore, the realisation of the economies of large operations has also been made possible by the existence of these commercial organisations Independent units of production are wasteful and risky and unable to make quick decisions. The need to offer united front to Government and other official and non-official bodies against any decision or legislation detrimental to the interests of the business community has also expedited the progress of this commercial organisation

Advantages to businessmen:

The membership of a chamber of commerce or trade association gives a certain kind of status to the business and many in some cases result in the realisation of the economies of large scale production. Considerable amount of waste in production can thus be eliminated and the evils of undesirable competition removed. A businessman very often stands in the need of information about local or foreign buyers and guidance in the production and marketing of his goods. In this connection he can obtain the assistance of the chamber of commerce or trade association to which he belongs. The membership of the trade association enables the businessman to exchange his views on economic matters with others and thus he can keep himself in touch with the latest development not only in his own industry but also in the general economic life of his country.

Whenever a combined united effort is to be made for safeguarding the general interests of his particular

type of business, the businessman can easily contact with his professional colleagues through the chamber of commerce or trade association of which he happens to be a member. Very often Government, before passing any legislation, circulates the draft bill amongst the chambers of commerce or trade association for their opinion and the businessman thus gets an opportunity of setting forth the effect of the proposed legislation upon his own industry. If the legislation is harmful to his business and is still passed by the Government, the businessman, by virtue of his membership of a chamber of commerce or trade association, can offer collective opposition to Government.

Chambers of Commerce also place at the disposal of the member businessman not only accurate statistics relating to his own business but also relating to the general economic development of the country and thus render invaluable assistance in enabling him to take correct business decision. The businessman is also greatly benefited by the result of the commercial investigations and technical reseach placed at his disposal by such institutions.

The membership of such commercial organisation enables the businessman to face labour agitation in a collective manner. Chambers of Commerce also publish and distribute amongst their members, pamphlets booklets, statements etc. giving many things of interest to businessman, such as daily quotations for certain commodities and shares, foreign exchange rates, arrivala and departures of steamers etc.

The importance of the membership of such organisation to the social and commercial career of the businessmen should also be properly emphasiserd. By being elected as Presidents of the Chamber or

association or by being elected as their representative on various public bodies especially on the Central Legislative Assembly, the businessmen manage to get a great amount of publicity and social importance, and in course of time achieve great fame and wield great influence over their fellow countrymen who regard them as their leaders not only in the field of business but also in the sphere of politics. It is a common experience that businessmen derive incalculable benefits when they attain to this privileged position through the chamber of commerce or trade association to which they belong

Finally, the membership of a trade association such as the Bombay Mill Owners' Mutual Insurance Association enables the businessmen to face any huge financial liability because his professional colleagues share the risk with him.

Opposition to Chambers of Commerce:

Some writers are opposed to the existence of the chambers of commerce on the ground that they are merely combinations of capitalists designed to further their own class interests. It is of course generally true that the chambers of commerce offer to protect the interest of their members most of whom are rich capitalists. But when chambers of commerce admit as they invariably do, the trade associations into their membership, the non-capitalistic, poor and middle class traders are also given an opportunity to take advantage of chambers of commerce. It is undoubtedly true that in most of such organisations there are certain dominant parties and cliques found to protect only certain group interests, but this is a fault not of the chambers of commerce but of the lack of civic responsibility and the spirit of liberalism amongst the

members of such institutions. Although the chambers of commerce are most solicitous about the interests of their capitalistic members, this is not exclusively the case, and the society at large does reap distinct advantages from such organisation in the form of labour reform, low price, labour welfare work etc.

CHAMBERS OF COMMERCE AND TRADE ASSOCIATIONS IN BOMBAY

Bombay Chamber of Commerce

This was established in 1836 under the auspices of Sir Robert Grant, the then Governor of the Presidency. The Chamber is composed mainly of non-Indian businessmen in India and seeks to safeguard their interests by bringing about organization and common feeling amongst them. The Memorandum and Articles of Association of the Chamber set forth the various aims and objects such as to encourage friendly feeling and unanimity among commercial men on all subjects involving common good, to promote and protect the general mercantile interests of this country; to collect and classify information on all matters of general commercial interest etc. Membership to the Chamber is by ballot and is open to any businessman desirous of joining the Chamber. The affairs of the Chambers are conducted by a President, vice-President a Committee, Secretary and Assistant Secretary.

The Chamber has got representation on various public bodies such as the Central Assembly, Council of State, the Bombay Port Trust, the Bombay Municipal Corporation, the Railway Rates Advisory Committee and many others.

Special Work:

The Chamber performs the important function of undertaking arbitration in commercial disputes. It

has a special statistical department which compiles valuable statistics relating to Indian trade. The Chamber also publishes a Daily Arrival Return, a Daily Trade Return and import and export manifest, a *Monthly Return* and *Current Quotations* relating to the trade of Bombay The Chamber has also a Measurement Department, which is entrusted with the work of measuring the packages for export. The Offices of the Chamber are situated on Ballard Estate, Bombay

2, **Indian Merchants' Chamber :**

This was established in 1907 and its objects are almost similar to those of the Bombay Chamber with this difference that while the Bombay Chamber represents mostly non-Indians, the Indian Chamber exclusively represents Indian merchants. Like the Bombay Chamber, the Indian Chamber has representation on important public bodies such as Central Assembly, Bombay Port Trust, Bombay Corporation, Railway Rates Advisory Committee, etc. This Chamber has been recently granted the right of measuring the export cargo in Bombay. The Offices of the Chamber are situated near the Churchgate Station, Bombay.

3. **Maharashtra Chamber of Commerce :**

It was established in 1927 with the object of establishing friendly relations among merchants and factory owners of Maharashtra and to safeguard their interests. It has a President, a vice President, and a Secretary. The Offices of the Chamber are situated near the Churchgate Station Bombay.

TRADE ASSOCIATIONS

1. **East India Cotton Association :**

This was established in 1922 to provide and maintain suitable premises for a cotton exchange in the

city of Bombay and elsewhere in India and to regulate admission to the same, to provide forms of contracts and to regulate contracts, to adjust by arbitration or otherwise disputes among cotton merchants to establish and maintain a Clearing House, to regulate the export and import of cotton and generally to control, promote and regulate the cotton trade in Bombay and elsewhere in India. The office of the Association are situated in a magnificent building on Kalbadevi in Bombay and it has also a fine exchange building at Sewri Cotton Depot.

2. Bombay Mill-Owners' Association -

This was established in 1875 and its objects are as follows: to encourage friendly feeling and unanimity amongst mill-owners and users of steam, water, and/or electric power on all subjects connected with their common goods, to promote and protect the trade commerce and manufactures of India in general and of the cotton trade in particular. The Association deals also with subjects connected with the individual businesses of its members. The Association has representations on important public institutions such as the Central Assembly, Bombay Port Trust, Railway Advisory Committee etc. The office of the Association are situated in Churchgate Street, Bombay.

3. Mill-Owners' Mutual Insurance Association Ltd.

This was established in 1924 and its important functions are · (i) the mutual insurance of its members against liability arising from Workmen's Compensation Act, and (ii) the insurance of its members against loss or damage by fire, lighting etc. The affairs of the Association are under the control of a Board of Directors and all the members of the Mill-owners' Association are eligible for its membership.

4 Grain Merchants' Association

The object of this Association is to promote the interests of the grain merchants and to put the grain and oilseeds trade on a sound footing. It is an influential body having a large membership. The offices are situated in Mandvi, Bombay.

5. The Bombay Piece-goods Native Merchants' Association:

The functions of this Association are similar to those of Trade Associations in general with particular reference to the piecegoods trade

In addition to the above important Trade Associations, there are many others such as those of rice merchants, silk merchants sugar merchants, insurance companies, iron merchants, etc.

The Federation of Indian Chambers of Commerce and Industry

This Federation was established in 1927 and was the outcome of the Commercial Congress held in Calcutta in that year The objects for which the Federation has been established are to promote Indian business in matters of inlandnd foreign trade, transport, industry manufactures, finance, and all other economic subjects to encourage friendly feelings and unanimity amongst the business community and associations on all subjects connected with the common good of Indian business, to enter into any agreement with any Government, or authority supreme, Municipal, local or otherwise that may seem conducive to the Federation's objects or any of them and to obtain from any such Government or authority all rights, concessions and privileges which the Federation may think desirable to obtain and to carry out, exercise, and comply with any such arrangement rights, privileges and concessions; to draw, to make, accept, discount, execute, and issue

bills of exchange, promissory notes, bills of lading warrants, debentures, and other negotiable or transferable instruments or security.

The constitution of the Federation consists of a committee made up of a President, vice-President, Honorary Treasurer, Secretary, Members and co-opted members. The rules provide for two classes of member viz. Ordinary and Associate. The membership fee for chambers of commerce is Rs. 300 and for trade association Rs. 150. The federation has at present 72 chambers of commerce and trade associations affiliated as ordinary members and 5 associate members. The Federation is recognised by the Government of India as the premier organisation representing the commercial and industrial interests in the country. The headquarters of the Federation are situated as 28, Ferozshah Road, New Delhi.

The All-India Organisation of Industrial Employers :

The organisation came into existence as a result of a desire on the part of the employerss' delegates to the International Labour Conference to have a central organisation in India to represent fully the employers of industrial labour within the country so as to facilitate the work of the labour conference in considering the problems of India labour. This was established in December 1932 under the lead given by Seth Walchand Hirachand the then president of the Federation of Indian Chambers of Commerce and Industry. The membership of the Organisation is open to any organisation consisting of employers of industrial labour in India and any industrial concern coming under the Factory Act. The annual subscription for the industrial associations is Rs. 25 and for the individual concerns Rs.10 The Organisation has on its roll 13 industrial association

representing Ahmedabad and Bengal Mill-owners, Northern India Employers, Salt Industry, Indian Shipping, Sugar Industry, Baroda State Mills and industries, glass, coal, mining, tea and jute industry. Besides, there are morethan 94 big industrial concerns as members of the Orgenisation The administration of the organisation is placed in the hands of a President, Vice-President, Honorary Treasurer and a Secretary. The headquarters of the organisation are situated at 28, Ferozshah Road, New Delhi, while the Bombay Office is stuated in Industrial Assurance Building near the Churchgate Railway Station.

The All-India Manufacturers' Organisation:

This organisation was established in 1940 with the object of bringing about rapid industrialisation of the country through sound and progressive economic policies so that the aggregate wealth of India and standard of living of Indians may be raised; that the material resources and talent of the country may be utilised to the fullest extent and the pressure of population upon land may be relieved The Organisation consists of: Ordinary Members, Company Members, Association Members, Life Members, Donor Members, a Central Committee, Working Committe, Special Committees, Regional Bodies and Annual Conferences. The regional organisation is probably the most active part of the organisation and its functions are to promote new and extend and improve existing industries, to mobilise capital, talent, and raw materials for the development of the region etc The organisation is endeavouring its utmost of extend the sphere of its influence and with a proper spirit of co-operation amongst its members, the organisation may be expected to occupy in course of time an important position in the economic life of

India. The offices of the organisation are situated in the Bombay Industrial Assurance Building, near the Churchgate Railway Station.

INTERNATIONAL ORGANISATION FOR COMMERCE

1. The Internal Chamber of Commerce

This is one of the most leading commercial organisations of the world. It was established in 1920 and was the outcome of a conference of leading business representatives of the important countries like France, Belgium, Italy, England and U S.A. The primary motive which actuated these people to establish this body was to remove the barriers of international commerce and to promote free and healthy international commercial intercourse. The management of the Chamber's affairs is entrusted to a Council which consists of the elected representatives of the various countries. The Council has a President, a Secretary-General, and an Executive Committee. Special committees are also appointed for special subjects such as commercial policy, statistics, international commercial and industrial agreements, international fares and exhibitions etc. The membership of the Chamber is divided into two classes viz. Organisation Members, consisting of chambers of commerce and Associate Members consisting of individual firms and companies. One of the chief activities of the Chamber is the bi-annual congress which is held in one of the member countries. The first congress of the chamber was held in London in 1921. The Chamber has also organised national committees consisting of the various business interests within the different countries and these committees are then affiliated to the Chamber as members. In India, there is also the Indian National Committee of the International Chamber of Commerce which was established in 1928

to participate in the promotion of the objects of the Chamber. The Indian National Committee has on its roll 35 commercial bodies as organisation Members and 47 commercial firms as Associate Members. The Committee has a President vice-President, Honorary Treasurer and a Secretary. The offices of the Committee are situated at 28, Ferozshah Road, New Delhi.

2. The International Labour Office

This organisation is a part of the International Labour Organisation which was established in 1919 by Part XIII of the Treaty of Versailles and marked the culmination of all previous tendencies and principles of safeguarding the interests of workers by international conventions. The establishment of the institution was based upon a realisation that peace in the world would be impossible without peace amongst the workers

Principles:

The establishment of maximum working day and week, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease, injury arising out of his employment, freedom of association of workers, the organisation of vocational and technical education and other measures.

The offices of the I.L.O. are situated in Geneva and are in a charge of a Director who appoints the staff comprising of about 450 persons representing more than forty nations.

Duties:

a. To prepare the ground for the International Labour Conference by collecting and analysing all the available data on questions before the Conference

b. To carry out the secretarial work of the Conference

c. To follow up the decisions of the Conference.

d. To collect and distribute information on all matters relating to the international adjustments ot conditions of industrial life and labour. This it does by means of its publications which include a weekly paper, a monthly review, texts and translations of new laws relating to labour, a Year Book and a number of non-periodical works embodying the result of the research conducted by the Office.

The I. L. O. has proved to be a very helpful institution to popularise the idea of industrial peace in the world, but is being reproached by some critics for being dominated by socialist thought in recent years.

3, The International Management Institute ·

This is a commercial organisation established in 1927 for the purpose of popularing the idea of scientific business administration. The objects of this Institute are to secure the maximum efficiency of labour with the minimum of effort, the promotion of standardisation, the elimination of waste, the improvement of methods of production, distribution and transportation and to bring a world-wide adoption of progressive methods by commercial and economic organisation. The offices of the Institute are situated at Geneva.

4. The International Miners' Federation :

This was established in 1890 to promote and safeguard the interests of labour employed in mines in the various countries of the world. This was probably the first indication of the general recognition of the need for the adoption of the trade union principle on an international scale. It consists of the representatives of the trade unions of many countries like France,Belgium Germany, Poland, Great Britain and Czechoslovakia The Federation has done useful work in lending mutual support to trade union movement in various countries

and has thus endeavoured to improve the lot of the workers in the world. The Federation has insistently drawn public attention to the need for nationalisation of coal mines.

5. The International Institute of Agriculture

This was founded in 1905 in order to safeguard the agricultural interests in all the countries of the world from the menace of the industrial age. It was felt that the agricultural interests in the various countries should be properly kept in touch with conditions in the world markets for agricultural produce by means of distribution of information, crop estimates, statistics etc., on a world wide scale. Seventy-four countries are affiliated to this Institute which has proved to be an important factor in bringing about international commercial and economic co-operation. The affairs of the Institute are managed by a permanent committee consisting of the representatives of the various governments which meet generally every two years in Rome. The Institute publishes a monthly Bulletin of Agricultural and Commercial Statistics, a monthly International Review of Agriculture, a Year Book of Agricultural Statistics, and a Year Book of Agricultural Legislation. The institute works in close co-operation with the various other international commercial organisations such as the League of Nations' International Labour Office and the International Chamber of Commerce.

6. The International advertising Association

This was established for the purpose of furthering the best interests of advertising in the various countries of the world. Some of its objects are to prevent false, deceptive and misleading advertisements, to conduct educational courses in advertising and to create a general interest in the technique of advertising. The member

ship of the Association consists of American States and many important countries like England, Australia and almost all the European countries The Association convenes annual conferences of leading businessmen and members where many important questions pertaining to international commerce are discussed in details

7 **The International Statistical Institute.**

This was founded in London in 1385 on the occasion of the Jubilee Meeting of the Royal Statistical Society The membership of the Institute is limited to 250 and it meets every two years The main function of the Institute is to collect and publish international commercial and economic statistics and to promote friendly relations amongst the official and academic statisticians in the various countries of the world.

Suggestions for Further Reading

1. Palekar S. A. *Trade of India*—Chapters III & XV.
2. The Handbook of Commercial Information for India.
3. The Times of India: *The Indian Year Book*
4. Annual Reports of the Federation of Indian Chambers of Commerce and Industry.
5. Annual Reports of the All-India Organisation of Industrial Employers.
6. Annual Reports of the All-India Manufacturers Organisation
7. The Handbook of International Organisations published by the League of Nations.
8. Encyclopaedia Britannica—Vol. XII pages 511 to 534.
9. Encyclopaedia of Social Sciences.

CHAPTER VIII

COMMERCIAL EFFICIENCY

IN every commercial enterprise the businessman has to keep a very watchful eye on the efficiency of administration and production. The question of commercial efficiency is a very wide one and includes a number of subjects such as scientific management of labour, the most effective utilisation of the various factors of production, elimination of waste, economics of large scale production, maximisation of output and the methods of rationalisation.

What is commercial efficiency ?

If the word is strictly interpreted it would imply the efficiency of the distributive activities. It is however, difficult to restrict this phrase in this manner and to make it coincidental with industrial efficiency. In fact, it is very difficult to draw any rigid line of demarcation between commercial efficiency on the one hand and industrial efficiency on the other.

In this sense the phrase might be understood to imply the efficient and scientific reduction of the cost of production and the attainment of a maximum point of production This phrase thus denotes that the manufacturer should plan the structure of his business in such a manner as to make the cheapest possible

commodity available to the consumer at the greatest possible profit to himself under the circumstances

The question of commercial and industrial efficiency has recently attracted the attention of almost all the economists and businessmen in the world. This has been the result of the existence of keen competition which has been an important feature of modern commercial activity. The present cut-throat competition amongst businessmen has led them to devise various means in order to popularise their own product amongst the consumers in preference to that of their competitors and the achievement of commercial efficiency is one of them. Businessmen have found in commercial efficiency their only hope of survival in the present business world. We shall therefore examine in the following pages the various factors of commercial efficiency and the various considerations which affect those factors.

FACTORS OF COMMERCIAL EFFICIENCY

1 Cost of Goods :

This may be regarded as one of the first considerations which affect commercial efficiency. In considering the cost of goods, which probably constitutes a major part of final cost, the place of manufacture of the goods must be first ascertained. The question that must be asked in this connection is whether the goods are manufactured at home or abroad. It is obvious that if the goods are manufactured within the country they will be much cheaper than if they are manufactured abroad. This, however, is not always the case because it may happen that a country might be so unfavourably placed in regard to the manufacture of a particular commodity that it might be found cheaper to import the same from abroad.

The second consideration which is relevant to this

question is the durability of the goods. If the goods are durable they can be purchased in large amounts and stored at a convenient period when prices are low to be utilised at a latter period. Durability thus results in making available to the businessman the economies of large scale buying and also safeguards his interests against price fluctuations. As against this, must also be placed the locking up of the businessman's capital and loss of interest of the same. Moreover, storage of the goods exposes them to various risks of loss by fire, theft etc., so that if the goods are durable and the businessman purchases them in huge quantities and stores them, he must incur an additional cost in insuring the same.

The third consideration which affects the cost of goods is the bulk of the goods. Bulky commodities require much space in the steamers or railways and godowns so that their cost of transport and storage is considerably heavy with the result that their final cost si increased to that extent.

Fourthly, the nature of the supply of the goods must also be taken into consideration, that is to say, in considering the effect of the cost of goods upon commercial efficiency, it must be ascertained whether their supply is steady or seasonal. For example, the supply of almost all agricultural raw materials is seasonal, with the result that businessmen have to provide themselves with adequate stocks in anticipation of demand Most of the cotton mills, for example, fulfil their requirements of raw cotton during a particular season so that it might be available in steady and sufficient quantities throughout the year. If the supply of the commodity is thus seasonal it naturally forces business men to purchase it much in advance and thus results in locking up of capital and loss of interest thereon.

On the other hand, if the commodity is available in sufficient quantity throughout the year, the manufacturer can purchase only the required quantity just at the required time and save themselves the risk of storage and the cost of insurance.

Finally the conditions under which the goods are supplied are also very important. The cost of goods when they are supplied under conditions of competition is bound to vary from that when they are supplied under conditions of monopoly In the former the goods are generally available at the cheapest possible prices whilst in the latter their cost depends upon the will of the monopolist. If it is a seller's monopoly and the demand for the commodity is inelastic, its price may be fixed at a considerably high level.

2. **Cost of Finance.**

In considering the relevanee of the cost of finance upon commercial efficency, great importance must be attached to the magnitude of its supply. The factors which regulate this supply of finance are the power and willingness of the community to save and the extent of risk involved in investing the savings. A community with a high level of incomes is bound to save a considerable amount. Similarly, if the enterpreuners who utilise the savings of the community by investing the same in industry, find that the risk of investing is too great, the demand for finance will decline and so will its supply. There is, of course, compensation of risk by the payment of interest and the rate of interest also thus affects the supply of savings. If it is sufficiently attractive, people will be induced to save more and more.

The place of domicile of finance is equally important in this connection. If the requirements of industrial

capital are fulfilled by foreigners, the cost of finance is bound to be higher than when they are fulfilled by indigenous sources Moreover, when foreigners furnish capital they are bound to be more susceptible to panic than indigenous capitalists This results in an enormous flight of capital on the slightest pretext and might bring about a crisis in the financial and economic life of a country. This was amply proved by the staggering speed with which foreign balances in London were withdrawn and a monetary crisis was forced upon England in September 1931 In some cases, it may be true that foreign capital proves to be a cheap and convenient source of commercial and industrial finance but the rights and privileges which accompany this foreign capital result in the creation of a vested interest which ultimately becomes a source of encumberance, annoyance, interference and corruption in the political and economic life of the country This problem is one of the most vexatious problems in the economic life of India.

Foreign capital in India.

It is very difficult to give an accurate estimate of the amount of foreign capital invested in our country. A rough estimate, however, would place it at about Rs 100 crores and most of it is British. Nationalist sentiment has generally disliked the existence of foreign capital in this country on the ground that the profits do not remain within the country, that the companies managing the investments are mostly British and the directors are invariably non-Indians with an indifferent and apathetic attitude towards India and Indians. Probably the strongest argument which has been forwarded against the existence of foreign capital in India is the creation of vested interests which are regarded to be

hostile to the political and economic aspirations of the country. As against this, it has been pointed out that the advent of foreign capital into this country has accelerated the pace of industrisation within the country which, it has been stated, has increased the national wealth and technical skill. It has been pointed out that foreign capital in India has rendered the most valuable service by bearing the initial risk and cost of establishing new industries which would not otherwise have come into existence at all. This has however, been answered by saying that with Government support behind them the foreign capitalists have entrenched themselves safely and in some cases obtained guarantees of interest from the Indian Government.

It has been suggested that some sort of restrictions should be placed upon the foreign capital in India e.g. registration in India with rupee capital, reservation of a part of share capital for Indians, and the appointment of a certain number of Indians as directors. Under the Government of India Act of 1935 no restrictions or racial disability can be imposed upon a British subject domiciled in the U. K. The British capitalists have been granted the same status as indigenous capitalists in India so that the position of foreign capital has been considerably strengthened and the possibility of imposing any restrictions upon it has been made very remote.

The entire problem of foreign capital in India has lost much of its importance by the recent repatriation of India's sterling debt by the Reserve Bank of India. Under this scheme of repatriation, the Sterling loans were repaid in England and their Rupee counterparts were issued in India.

Another factor influencing the cost of finance is the

obvious that it will have to produce enough for the whole year and in this case the question of output assumes great significance

The output is also affected by the total number of working days in a year This is determined by the holidays, daily hours of work, labour unrest, strikes, lock outs, absentism and labour legislation In India there is a general tendency amongst the workers towards demanding many holidays of a religious or political nature. Indian worker is also prone to absent himself often from his work. Labour legislation prescribes the maximum number of working hours per day and in this manner determines the number of working days and ultimately the total output. Efficiency of the worker also depends upon his general education and the output is also affected largely by the conditions of work. In India the Indian labourer is very poorly educated and the conditions of work in the factories are supposed to be unscientific and in many cases unhygienic. Commendable effort towards labour welfare is, however gradually being made by some of the leading mills like the Tatas.

The cost of labour, as a factor of commercial efficiency may also be regarded from the standpoint of the rate wages paid to the workers. If the workers are paid at a very high rate, the cost of wages will be high and ultimately the cost of production will also be correspondingly increased. This, however, is not always the case and high wages are supposed to go hand in hand with low cost. The paradox of high wages and low cost can be understood only if a long range view of the labour cost of production is taken. Under these circumstances it is obvious that the greater the effort that the employer makes to satisfy and stimulate his employees, the greater is the efficiency of the employees

work. High wages are one of the means of giving an incentive to work to the employee and also to keep him contented by raising his standard of life. If the employer pays very low wages or wages which and not sufficiently high to induce the employees to work, then he will be in a discontented state of mind and will refuse to put in as much energy in his work as is necessary for efficient production. The worker will resort to constant strikes while the employer may resort to lockouts and this will hamper the machinery of production, reduce the output and increase the cost of production It is thus in his own enlightened self-interest that the employer should pay high wages to his workers so that their efficiency may increase and the cost of production may be reduced The high wages raise the worker's standard of living and thereby put him in a very favourable state of mind to concentrate all his attention upon his work. The possibility of earning higher wages if he produces more also stimulates the worker to put all his shoulders for speeding up the wheel of production. Thus, high wages, although they appear to increase the cost of production, lead in the long run, to a reduction in it.

The validity of this proposition of high wages and low cost depends primarily upon the psychology of the worker and his social environments giving him a particular outlook on life. High wages can reduce the cost of production only in those cases in which the worker can thus be induced to put in a greater amount of energy in his work. Where, however. the worker cannot be stimulated any further either because of slothfulness or because he has already reached an optimum point of exertion, no increase in the level of wages will result in greater output and reduction of cost. If the

the total road mileage, its distribution, quality of the roads, number of motor vehicles, and the manner in which the road transport is regulated and co-ordinated with other means of transport.

5. State Action

During the 18th and the 19th centuries, economic development was characterised by private enterprise because economic thought was dominated by the 'Laissez-faire' policy. 'Free Trade and free economic activity' was the slogan raised by the economists, politicians and statesmen of those times Government interference with private industry was regarded as a serious breach of individual liberty; but as commerce and industry became more and more complex and as colonisation became more and more expensive the limitations of private initiative to exploit new economic resources and to satisfy new wants was gradually realised. Economic thought began to be redirected along a new channel and state aid began to be regarded as one of the indispensable requisites of national economic prosperity. This has culminated in the general acceptance of the utility of state intervention in the form of legislation, taxation and protection for industries in the present economic and commercial world.

Although state planning has become an integral part of the present economic life, people have begun to question whether such intervention by the state really conduces to increased commercial efficiency. The effect of state action upon commercial efficiency may be considered under two separate heads viz. 1. state action which reduces cost and 2, state action which increases cost.

A Industrial Policy

Those circumstances in which commercial efficiency is favourably affected relate to a Government action

undertaken as a part of a general industrial policy to promote national commerce and industry. There are may aspects of industrialisation in which the individual demand is not only insignificant but also individuals are incapable of satisfying the national wants. Under these circumstances, Government can organise scientific and technical services and undertake industrial research. The reason why the carrying out of research devolves upon Government is that if an individual or a company undertakes the same, it will have to be paid much more for every successful venture so that it may cover its expenses for unsuccessful ones. In this case, state action, would undoubtedly reduce cost and increase commercial and industrial efficiency.

The intervention by the state which assumes the form of industrial and technical education, commercial and industrial intelligence and pioneering and demonstration of industries also affects commercial efficiency favourably. Then again, whenever individual industrialists find it difficult to acquire lands for a site for their productive units, Government can intervene and acquire the lands for them and thus reduce their cost of production. The most important form in which state action is indispensable for commercial efficiency is Government's financial help given to industry in the form of direct subscriptions to capital, cheap and adequate loans to industries, guarantee of capital and interest of industries floated by private initiative undertaking to purchase output etc.

B. Marketing Policy

State action in this sphere can be of invaluable help in reducing the cost of marketing of commodities and thus raising the general standard of commercial efficiency. For example, Government can provide cheap,

adequate and suitable means of transport for assembling the goods at market centres. It can undertake the grading and standardisation of commodities and thus raise their marketable value pass suitable legislation to ensure efficient marketing practices, provide cheap and suitable means for storing commodities like elevators, cold storage etc. It can also grant cheap and adequate marketing finance, undertake market research and market intelligence, and also market survey It can send marketing experts to foreign countries or appoint Trade Commissioners to explore the possibities of foreign markets. In all these circumstances state action reduces cost and increases commercial efficiency.

C. **Commercial Policy** ·

State action in the matter of commercial policy also ncrease commercial efficiency. For example It can prohibit or impose custom duties, on the import of foreign goods into the country and thus protect the home industry from their competition Then again, it can grant suitable export subsidies to certain commodities and thus reduce their marketing cost. On the other hand it can prevent the export of certain commodities altogether or restrict it by the imposition of export duties and thus raise their cost to foreign consumers In this case, however, state action may be regarded as increasing the cost of goods and thus affecting unfavourable commercial efficiency of the country. The levying of excise duties has also the same effect.

D. **Legislative Policy :**

State interference by legislation may result in either an increase or a decrease of commercial efficiency. For example, when Government passes legislation fixing a maximum rate of interest for commercial advances, undertakes labour legislation to prevent any friction in

the economic life, such intervention may be regarded as affecting commercial efficiency favourably. On the other hand, when it passes laws making certain expenditure by businessmen compulsory, fixing an unduly high minimum wage, controlling pr ces, or requisitioning private, commercial and industrial resources for its own purpose at unduly cheap rates, such Government intervention may be regarded as affecting commercial efficiency unfavourably.

E. **Taxation Policy**

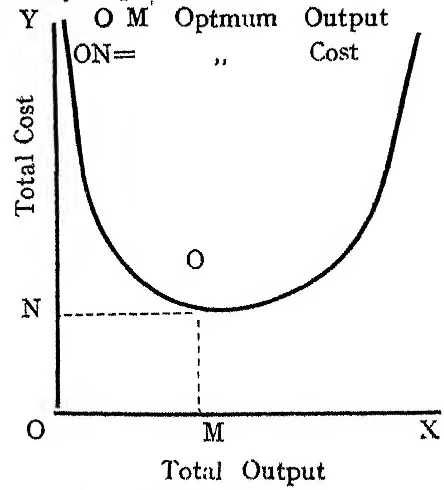
State action which assumes the form of taxation inevitably leads to an increase of costs and affects commercial efficiency unfavourably. For example, the Income tax, Super-tax, Excess Profit Tax, Municipal Taxes—all these put a burden on the industries by raising their cost structure

6. **Optimum size of Business:**

The economic structure of a commercial firm should be so adopted as to give maximum output for a stated amount of input. This question involves not only the intensive application of ability and capital so as to reduce the cost of production, but also the problems connected with rationalisation.

In every industry there is a point (O inthe diagram) beyond which the entrepreuner obtains a lesser and lesser amount of output relatively to the amount of input. It is the turning point in the cost structure ofthe industry or the firm beyond which the economies of large scale-production can no longer be realised and the average cost per unit begins to rise. It is at this point that the various factors of production are fully employed to the best advantage of the industry but beyond this, they give decreasing returns insteadof increasing ones. This is known as the optimum point of the firm at

which it is neither too big nor too small and every commercial firm or business should aspire to reach this point as early as possible.



Mr. E.A.G. Robinson defines an optimum firm as "that firm which, in existing conditions of technique and organising ability has the lowest average cost of production per unit, when all those costs which must be covered in the long run are included." The optimum point is determined in the long run by the interaction of the entrepreuner's decisions as well as the forces of competition. The optimum business can come into existence as only under conditions of perfect competition and can remain in existence only when the market is of an adequately big size to absorb the entire output of the optimum firm. The attainment of the optimum size can only be made possible if the optimum point is reached in the various aspects of business such as technology, management, finance, marketing and risk bearing.

The optimum technical unit may be attained by

a careful division of labour which not only puts a greater amount of skill in each worker and saves time but as Adam Smith pointed out, enables one man to do the work of many. Integration of the various processes and stages of production is also an important aspect of the business attaining an optimum size Such integration is only possible if the business is of a sufficiently big size. For, if the business is too small, the process has to be performed by an outsider, with the result that the business is broken up into many parts. A commercial enterprise should be sufficiently big if it is producing articles of a great physical size e g steel making, ship-building and also where the final product is composed of a great number of small parts e g. type writers, motor cars etc.

The optimum managerial unit must be achieved by a division of labour and the allotment of work to those persons who are best suited for it. For this purpose, the firm should be sufficiently big and not too small because in that case, one man will have to do many operations for which he is not best suited e. g. the manager who can best take important decisions will be unnecessarily burdened with clerical work. A commercial firm which is big in size realises many economies of large management especially in regard to its fixed expenditure such as rent, rates, taxes etc. The integration of processes is also possible in the case of the attainment of the optimum managerial unit e.g. the various mechanical and labour-saving devices used in modern commercial offices. Now, if the firm is too small, it is obvious that it cannot bring about such integration because the cost of labour-saving is too heavy in relation to its size. Then again, in a small firm the allotment of work is rendered very difficult.

In regard to the financial aspect of the question, a small firm has the advantage of a greater freedom, but a big firm can borrow money at cheaper rates owing to its wider reputation, and the greater ease with which its credit can be easily ascertained by the investors.

As regards the attainment of the optimum marketing unit, it is obvious that if a firm does not attain an optimum point and is too small, it will not be in a position to obtain the economies of large-scale buying nor would it be in a position to appoint an expert buying staff

Similarly, the size of the firm has a great bearing upon its ability to face risks arising from fluctuations in demand, changes in prices, etc. If a firm is too small, it will probably be unable to survive the shock.

Industrial Combinations ;

Combination of separate businesses is one of the means of attaining commercial efficiency. We shall, therefore, study in the following pages the various forms of combinations and their advantages.

Forms of Combination

1. Merger 2. Stock ownership 3. Lease 4. Pool & Cartels 5. Trust 6. Holding Company.

1. The Merger :

When a merger of companies is accomplished, one or more of the companies concerned loses its indentity in another.

2. Stock Ownership :

The second method of combination is that of stock-ownership in which one operating company purchases the stock of another giving in exchange securities or cash or a company can be organised for the purpose

of holding the stock of other companies which by this device are brought under centralised control.

3. **The Lease:**

This is a contract by which possession of certain property is transferred from the owner known as a less or to some other person or a company known as the lessee. The advantages to the lessee are that he obtains the control of the property without the outlay of any money But the disadvantage to the lessor is that the leased property is not available as security for loans to pay for improvements which may increase its value.

4. **The Pool:**

This is a voluntary association of sellers to placethe marketing of their product under some central control or general restriction. The primary objects of such combination are to eliminate competition and to secure profitable prices either directly or by means of payment from a central treasury to the members of the association. The methods by which the profitable prices are secured are restriction of members' output and fixed quotations. The essential weaknesses of this type of combination are its voluntary nature, mutual distrust and the existence of majority rule.

5. **The Trust:**

This is a kind of a permanent pool andit is expected to realise the benefits of the pool while avoiding its mistakes. A trust may be defined as an organisation managed by a Board of Trustee to whom the capital stock of the constituent companies is irrevocably assigned. In other words, the original shareholders accept the trustees' certificates in lieu of former evidence of ownership. Sometimes, the term 'trust' is synonymous with big business Writers associate sometimes the idea with that of monopoly.

There are two kinds of Trusts ·

a. *The vertical Trust*: This is a combination which brings together under unified control two or more successive stages in the process of producing goods.

b. *The Horizontal Trust*: This is a combination into a single business unit or more or less closely knit association of a number of firms, all concerned with the same type of production at the same stage These are of monopolistic character.

The Cartel

In contrast with trust type of combination, stands the cartel type. In this form of combination, the separate businesses retain both distinct existence and ultimate independence and merely come together for collective actions in certain matters of common importance to them. e. g. regulation of prices or output, standard specifications etc. Whilst trusts are irrevocable, cartels are not so

6. **The Holding Company** ·

This is a combination organised for the purpose of acquiring stock and securit es of other companies These securities are acquired either by direct exchange of its own stock and bonds or by their sale for cash which is used to purchase the securities desired.

Advantags of Combination:

a. Advantages of large scale production.
b. Elimination of wasteful competition.
c. Reduction in the cost of selling.
d. Freights and cross-freights can be saved
e. The best brains can be chosen to manage the entire concern and managerial ability can be distributed so as to get the best results.
1. A combination is better able to extend its operations in foreign markets.

g. It is not subject to the danger of granting excessive credit

h Operation only at the most efficient lines

i. Elimination of some expenses of advertisement etc.

j Specialisation of production at the various plants of the combination

k Wasteful and ineffective methods are easily detected by the application of "deadly parallel" principle

l Best methods of production—Full use of patents

m Greater facility for the use of bye-products.

SUMMARY

Meaning of Efficiency:

Reduction of the cost of production —Maximum output per unit of labour —Competition affects E. Monopoly does not raise the problem—Seller's monopoly and buyer's monopoly

1. **Cost of Goods**

Whether manufactured at home or abroad Whether durable—Bulky—supply steady or seasonal e. g. Raw cotton—Competition or monopoly

2. **Cost of Finance**.

Supply depends upon the power and willingness to save—Foreign or Indigenous—Flight of Capital—Distribution between the various aspects of the national economic life e.g trade, industry, marketing etc. Risk—Security.

3. **Cost of Labour**

A *Per unit of output*

a. Working population—Immigration and Emigration—Males and Females—Mobility of labour—whether supply is seasonal—whether working is seasonal.

b. Number of working days—Holidays- daily hours of work—Labour unrest Strikes and lockouts—absentism—labour legislation
c. Efficiency depends upon education
d. Amenities and conditions of work.

B. *Rate of Wages*:
a. Whether payment is made weekly or monthly
b. Extent of workers' organisation.
c. Payment of wages Act 1936
d. Deductions from wages—Fines etc
e. Welfare Work: Leave with half pay.
f. Strikes and lockouts: Trade Disputes Act.
g. Insurance—Workmen's compensation

4. **Cost of Transport:**

A. *Shipping*:
a. Whether ships are manufactured at home or abroad.
b. Freight charges—whether monopoly or competition.
c. Situation and condition of ports—only 5 ports in India.

B. *Railways*:
a. Mileage.
b. Distribution.
c. Quality.
d. Number of motor vehicles Regulation.
e. Co-ordination of transport.

5. **State Action**
a. Which reduces cost.
b. Which increases cost.
a. Industrial Policy.
b. Marketing e.g. Gregory-Meek Mission to U.S A
c. Pioneering—e g. Madras Govt's aluminium factory.

d Protection—state-aid to industries

e Trade Commissioners

d Proper legislation to avoid friction in or dislocation of the national economic life.

e Taxation—Income tax, super tax, Municipal rates, Motor Vehicles Act

6 **Optimum Size of Business**

Suggestions for Further Reading

1 Marshall A. *Principles of Economics*

2 Taussig : *Principles of Economics.*

3. Bonavia · *Economics of Transport.*

4 Robinson E A G *The Structure of Competitive Industry.*

5. Report of the Whitley Commission on Indian Labour

6 Report of the Indian Industrial Commission.

7 Jathar & Beri *Indian Economics*

8. Benham . *Economics*

CHAPTER IX

GENERAL.

1. TEXTILE CONTROL BOARD

THIS Board was constituted by the Government of India, Industries and Civil Supplies Department, under Clause 4 (1) of the Cotton Cloth and Yarn (Control) Order of 17th June 1943 It consists of 25 members and has to advise Government, through the Textile Commissioner, generally on matters connected with the export of cloth, yarn and raw cotton The objects of the Order are to declare and define classes and specifications of cloth and yarn which may be manufactured by mills, to fix maximum prices both ex-factory and retail and to prescribe the marking which manufacturers shall make upon the cloth manufactured by them, to call upon all dealers in cloth to declare not later than 15th August 1943, stocks of cloth and yarn held by them on 31st July 1943 and to require them to dispose of such stocks before 31st December 1943, to lay down that all cloth manufactured after 31st July 1943 and bearing the specially prescribed markings, shall be disposed of by retail sale within 6 months of the date of packing by mills ; to prohibit persons other than dealers and manufacturers from having in their

possession cloth and yarn in excess of their normal requirements and finally to provide that Courts shall have the power, in addition to any sentence that they may pass to direct that any cloth and yarn in respect of which they are satisfied that a contravention of this order has occurred shall be forfeited to Government

The functions of the Textile Commissioner are

a. To specify by notification in the Gazette of India, the maximum prices, ex-factory, wholesale and retail at which any stocks of specification of cloth or yarn may be sold, markings to be made by the manufacturers, the maximum quantity of handloom cloth which can be stocked by any dealer and the maximum period for which he may hold such stocks

b. To issue from time to time directions to any manufacturer regarding the class or specification of cloth or yarn, the maximum or minimum quantities there of which he shall or shall not manufacture during such periods as may be notified in the directions

At the first meeting of the Board, the following eight committees were formed to deal with the various problems arising from Government's scheme to control cloth and yarn within the country

a. *The Industry's Committee* . is the Executive Committee of the T C. Board and advises on questions relating to prices, specifications, exemptions etc

b. *The Export Committee* has to advise on matters connected with the export of cloth, yarn and raw cotton

c. *The Distribution Committee* for the distribution of cloth and yarn.

d. *Transport Committee* , deals with the problem of ransport of manufactured cloth to the consumer.

e. *Millstores and Priority Assistance Committee* is entrusted with millstores and raw cotton supplies to mills.

f *Cotton Movements Committee* which looks after the transport of raw cotton

g *Cotton Committee*: which deals with all problems of raw cotton except its movement and price.

h *Handloom Committee*: tackles the problem of the handloom industry within the country.

The present personnel of the T C. Board consists of the following important members Mr. M. K Vellody I C S. Textile Commissioner, Mr. Krishnaraj M D. Thackersey, Chairman, and representatives of the cotton textile industry, of the Indian Central Cotton Committee, Labour interests consumers' interests, Distribution, Regional Controller of Railway Priorities, and the representatives of the handloom weavers.

2. FOODGRAINS PURCHASE SCHEME OF BOMBAY GOVERNMENT

This scheme has been recently instituted by the Government of Bombay in order to ensure a more equitable distribution of foodgrains in the Provinces. Before this scheme came into operation, the Collectors of the various districts purchased foodgrains at prices and in quantities fixed by Government. Under this scheme, however, the farmers are required to surrender to the Collector a certain specified part of their total production of foodgrains This is called "levy" which has been fixed in relation to the average fertility of the cultivator's land. The grain surrendered by the farmers to Government, after retaining with themselves a part for their own consumption, is stored in Government godowns and is being sold to authorised dealers who pay the price into the Government Treasury and take delivery of the grain from the Government godown keeper against the presentation of the relative Challan.

3. HIRE PURCHASE SYSTEM

Under this system, the consumers can take possession of goods and agree to pay the price by instalments at stated intervals The goods do not become the property of the buyers until and unless all the instalments are paid and the seller is entitled to forfeit the goods as well as the instalments already paid in the event of a default to pay any single instalment The great advantage of the system is that it stimulates business by inducing persons to buy things for which they may not have enough money just at present It enables poor people to possess commodities which the low level of their incomes would not otherwise permit The obligation to pay the instalments compels them to save. This system is very helpful for furnishing or buying a house and for the purchase of costly fixed assets of business The system has, however, been criticised on the ground that the consumers mortgage their future income and that it leads to bad debts In order that the system should work successfully, the goods must be of a durable nature e g radio set, refrigerator, sofa set etc. The system is very widely spread in some of the western countries particularly the U. S. A. In India also it is coming gradually.

CHAPTER X

EPILOGUE

IN the foregoing pages we have examined the various aspects of India's commercial and economic life. There can, of course, be no two opinions about the economic ideal of India. If India is to take full advantage of post-war conditions and stimulate her commerce with the rest of the world, she must first reform her internal economy so that she might withstand any shock that might be given during that time. It will be indeed futile to bring about some patchy and half-hearted reforms in some minor directions. What is needed is a thorough rectification and reorganisation of commercial and economic life and a change of outlook on economic matters. It is of course true that under the present circumstances, some reforms might be considered rather too unconventional and for that reason impracticable. But there are many defects in the Indian economic system which exist merely because of the indifference of those who are in ordinary course entrusted with the promotion of its interests. These might very well be removed without detriment to anybody's interests. Such an attitude towards Indian economic life would undoubtedly do a great deal to remove a lot of misunderstanding and prejudice in the public mind. India is no exception to

the general rule that national economic development is an impossible proposition without state aid

Agriculture constitutes the life-blood of Indian, economy and any means of reform, if they are really to be beneficial on a country-wide scale, must give due weight to the urgent problem of raising the level of agricultural incomes. This can only be achieved by ensuring that the Indian farmers obtain at least reason able prices for their produce. For this purpose, the markets must be properly regulated, the produce must be suitably graded and packed, adequate transport facilities in the form of better village roads must be provided, the farmers must be kept thoroughly and promptly informed about the latest price quotations for their produce and finally, they must be provided with cheap and adequate finance for their short-term and long-term requirements.

Indian commerce must be provided with a well-organised, extensive and well-developed investment market. Indian foreign exchange banks, Indian insurance companies, investment trusts, underwriting houses and stock-exchanges in mofussil towns. Business men in India must be impressed with the necessity of adopting scientific methods of retail and wholesale trading by good publicity and salesmanship. Indian commercial organisation should be made very elaborate and Indian mercantile houses, trade commissioners and consuls should spread themselves in the important parts of the world. Periodical trade missions should also be sent to foreign countries to explore the possibilities of markets for Indian goods.

If these measures are adopted, India might aspire to become in course of time one of the leading mercantile nations of the world.

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